

## The IHRIS Podcast – The FCA

**KW – Katherine Watkins, Head of Consultancy at IHRIS**

**JB – Jon Baker, Independent Proposition Development Consultant**

**KW:** Hello, and welcome to another IHRIS podcast. Today, I'm delighted to be joined by Jon Baker, who is an independent consultant working with the UKGI group and supporting us on a number of key initiatives within the insurance sector.

Jon, thank you very much for joining us today. It would be great for you to give the listeners a little bit of background about you and what you do.

**JB:** Hi Katherine. Yeah, great to join you today and thanks for asking me along.

In terms of my background, I've worked in financial services all of my career. So, over thirty years now. I started off working for some large, traditional, life insurance companies and then, probably about ten, fifteen years ago, I moved across to a regional independent financial advice firm, where I had a variety of operational, business development, proposition development, marketing and comms roles. Also, I chaired the multi-disciplined investment committee for that business. So, we designed and governed the investment proposition, including research, due diligence, everything like that. So, got involved in lots of different things. I've got a good understanding of the broad aspects of running a financial planning business, in terms of compliance, operations, you know, finance, I.T. Got involved in all of that and really enjoyed the role.

**KW:** Super! You make your background sound so much more interesting than my HR background and I've been in it for twenty-five years, so [laughter] I appreciate that. I think also, at the beginning of this podcast I didn't even explain that today we'll be going through the topic of the FCA because, with the HR side of what we do to support clients, we're very closely aligned to needing to know what the FCA do and the change in rules and regulations. But I think for the listeners, Jon, to get your take on how you've seen the FCA change over the last five years or so, would be really useful because a lot has changed. Do you think it's become better? Has it become more cumbersome with some of the new initiatives and missives they've come out with?

**JB:** Yeah, I think the FCA, inevitably, has changed; obviously change of leadership, change of focus, different economic backdrop, really heavy workload, probably stretched for resources as well, like many large organisations. I think, on the financial services side of the business, I think issues like London and capital finance, defined benefit pensions and Woodford investment issues bog them down a bit. I think, there are positive sides to it though. I think, some of the thematic reviews, the consultations, like the recent one on assessments of value

for investment managers, are welcome and to me it's good to see those things going on because it brings to life the FCA's role in delivering better outcomes for consumers, whether it's for insurance products or investments. It's good to see evidence of that and the practical guidance, you know - the good practice and bad practice - to help firms just do a better job and comply with the regulation and the spirit of the regulation. So, I think a tough job but broadly going in the right direction.

**KW:** It's interesting what you say there actually, around the changes with the FCA and how probably, their resourcing has changed quite a bit as well. I almost liken it to what we've heard in the media recently around the climate change report and I wonder if the FCA are falling into this area. The climate change report came out with a lot of facts around, you know, the climate is changing, and humans are at fault for a lot of it but then there appears to be very little practical guidance around how these things can be turned around. I think, certainly as a HR professional, I find that when I'm talking to my clients. The FCA are great at saying, you know, you need more diversity at the board level, you need to be having more DE&I within your frameworks but then actually when I look at how the FCA are doing that, you almost can't see that they're leading from their own example. Would that be fair from what you're seeing and your knowledge of them?

**JB:** Yeah, I think so. I think, in some respects, it's sort damned if they do, damned if they don't really because if we had, you know, a rules-based system where [there were] thousands and thousands of pages of rules - very prescriptive - firms would no doubt say "actually, it's too hard to follow, it's confusing". So, at the other end of the spectrum you've got a kind of principle-based regulation which is, you know, "we expect firms to be able to demonstrate this behaviour, that behaviour", but don't necessarily give those examples and then firms can say "it's too vague, I don't know what I'm doing". So, as ever, like a lot of life, it's striking that sensible balance in the middle, which is, like I say, the principles and the spirit of the regulation of "we expect firms to demonstrate this", these are examples of good practice we've seen in firms where they've done it well and, you know, there's evidence there and these are examples where we've seen firms actually not doing anything on this point and examples of bad practice. I think, those for me, when you read consultation papers and you read thematic reviews and things like that, that come out, they're the ones that always catch my eye because they're the practical ones where actually, that'll really help you. Because all these firms are all facing the same issues, the same regulation, the same challenges. So, if they see someone doing it well, then I think that, to me, is a good, positive step and I'd like to see more of that.

**KW:** Yeah, that's very good observation, I think. With having so many companies facing the same issues within insurance, I guess there needs to be some comfort that you're all not rowing that boat singularly, you're doing it all in the same direction. There is that aspect that those, that you refer to, who are doing nothing,

surely, you're setting yourself up to be on the FCA radar and I don't think that's a place anyone wants to be on.

**JB:** Well, no, it's true. I think, for me, I remember a compliance director I worked with many years ago, saying "if it isn't written down, then it never happened" and this was actually in the context of financial advice and justification, suitability reports and things like that, but I think it generally holds good which is, the FCA will say "well, show us your process for checking client money or anti-money laundering" and it's, "oh, well we've got a great process, it's really good. Yeah, it's not actually written down, but it works fine". Actually, that's not evidence. That's not good practice. It doesn't show that the firm's being well run and there's control, there's oversight there, if it's not written down. That's something which has kind of stuck with me and that's the part that – you know, I appreciate that insurance brokers are busy seeing clients and there's lots of challenges and actually some of the regulatory grunge, if you like, and some of that detail, can get lost. It's not necessarily an insurance broker's skill set to grapple with that. I enjoy that detail. I enjoy writing it down. I enjoy structuring it, such that, if a firm ever comes under scrutiny, you can say, "well this is the way we do it". It's not just a 'day one' exercise, it's actually ongoing. How do you check it? How do you update it? Is it fit for purpose? Have you got the right reporting? Are you looking at the right dials so that you can say, "yeah, this is okay. This is under control. This is going well". So, I like to see, you know, I like that. Like I say, it's not one of those things that is particularly glamorous, but really important.

**KW:** No, that's very much what I always say to my clients. I was on a webinar a little while ago and it was one of those hot fire rounds where clients were able to ask me, as HR, anything that they wanted. The pat answer I always came back with was, you need the evidence, you need to show it, you need flow maps, you need road maps. Whatever you do, without evidence, you can't just say "well, we did this, we did that" because a lot of the regulators, they need to actually see it. Much like, I say, in a court of law. You can't say, "I did this and did that", if you haven't got the evidence. You've got to find exactly what you've done.

In terms of the experience that you're seeing with clients, you've referenced that some clients have been pretty bad, and they haven't done anything. What's the implications for firms who - be it they just can't be bothered, or they've been too slow, or they haven't got their act together with it - what are the implications from the FCA, for them? Are there now fines? Is it reputational? Is it loss of business? What are the key ones that you notice?

**JB:** I think that it can be overwhelming for firms. I think, if you just look at the FCA's own weekly update that they issue close of play on a Friday, there are policy statements, there are press releases, there are consultations, there are corporate notes. It can be overwhelming and if you're the person, in a small firm, in charge of implementing these changes, how do you know what are the really critical ones? How do you know the ones that are advisory? You can pick up things in

the press and social media and LinkedIn, but I would say, it is a lonely place if you're responsible for that compliance with the various regulation and the various regulators, of course; it's not just the FCA.

It is good to share the experience of others. So, firms like yourself, I think, who not only consider the FCA regulation and how to implement it, but how that dovetails with employment law and other regulations. I think I'm seeing a trend towards – sort of traditional lines of employment law is HR and FCA regulation, you know, that's the compliance department – I'm seeing it to be blurred now because if individuals are subject to both sets of regulations it makes sense to look at it from that end of the telescope, if you like, rather than the traditional ways of doing it. The other thing I would say about the FCA regulation is that you can't ignore it, don't leave it to the last minute because the more time you've got to prepare, the better. I would say, the response needs to be proportionate but be proactive, and see it as opportunities, okay, driven by regulation but actually, will it improve the business? Will it make it more efficient? Will it drive some sort of cultural change? Look at it on that level.

**KW:** Yeah, very pertinent points there Jon. I appreciate your experience and being able to share that with the listeners. We see it with our clients. They may have contracts of employment that haven't been looked at since 2018. Well, the FCA has let out a lot of new direction since then. Employment law has changed since then. We spend a lot of time with our clients redoing their contracts, looking at their handbooks, looking at all the policies across the group. We did a podcast a couple of weeks ago with one of our colleagues in the compliance team at RWA and it just shows how closely we need to work with them. You know, I'm an expert in HR, I'm not necessarily an expert in all the compliance side but my colleagues are. Getting HR and compliance together can take that heavy lifting and worry out of it for you. You know, probably a bit like you Jon, I sleep, eat, and breathe employment law and FCA regulation, so to be able to be with that is essential.

**JB:** I'd agree with that and I think, that's why the FCA is obviously in a unique position because they can look down into businesses and share that broader practice, but equally, with yourself Katherine and a number of different firms, I'm sure you see good practice and bad practice and actually, you can take those learnings and share, and give your clients that confidence of, "this is based on us dealing with dozens of firms. This is what works well. These are the regulations". But you know, another one of the things I kind of always bear in mind is, "so what? The regulation says this but what does it mean?". You know, how do you interpret it? Where do you start? And if it's not, as you say, not your natural skillset to do that and you're busy, then actually, to have some support in confidence, to say "right, okay, look, don't worry about it, this is what we can do. You need to change this template. You need to change this contract, or you need a new policy on this, or you need to tighten that. Actually, you can back off on that bit know because this bit is becoming more important." Just to have that confidence and that

reassurance from someone independent, an expert, I just think that's invaluable for a lot of insurance brokers who tend to be - you know, many of them are small teams, very focused and don't necessarily have the luxury of dedicated HR, regulatory resources, in some cases. So, to have that support is great.

**KW:** Yeah, and I think, with the thought around being able to translate sometimes, the formality of what's coming out, you're right, it can be difficult if it's not your natural skillset and me and my team spend a lot of time doing that. I think also, I'm noticing, with the increase in the M&A activity in the insurance market, that is only raising the profile across the FCA for companies to make sure that they are adhering in whatever the new landscape of their company is going to be, that they do meet all the criteria. Isn't there, with the FCA, their charter that they bring out, that they're wanting a lot of companies to follow through? Is there financial implication for companies yet, if they're not following any of the charter set out by the FCA or is it more reputational damage at the moment?

**JB:** I think, it is both. I think, probably more reputational at the moment. The FCA tells you the behaviours and standards it expects but I think that, in time, if it doesn't see improvements, there will be more intervention, more regulation and more financial penalties. That will come down the line.

I think, the thing about the M&A activity is, you know, if a firm takes over another firm, they want to know that that is a well-run firm and that there's nothing nasty lurking in there. Again, it comes back to evidence of if you've got the policies and procedures in place, if you've got the reporting, you know, the treating customers fairly, the complaints registers, conflicts of interest, all of those different things that you need to, that you can say to the acquiring firm, "yeah look, this is a good, well-run business. We've got control. Here is the evidence. Here's the reporting". And of course, that's the ultimate financial aspect to it, if you like, which is, you will be able to sell your business for more if you demonstrate it's a well-run business, profitable and, you know, that you've got those controls and there is nothing nasty in there. That can have a real benefit. And to think about selling your firm, you need to have these things in place a year or two, three years, in advance, to plan for that.

**KW:** And going back to a point you mentioned earlier on, you said that even the FCA are struggling with the whole resource aspect. You know, they're struggling much like other companies at the moment, with the pandemic and staff in and out of the office. Is that having much delay time in some of the repercussions of failure to comply? Are they taking longer to assess cases? Is there that known backlog that I see in the employment tribunals? You know, you can put in an ET and you won't hear anything for a good year at the moment because there's such a back log. Is that the same, with the FCA, in your experience?

**JB:** Anecdotally, yeah. I think, they are fighting it on so many fronts though, that it is difficult to know the reason sometimes. You think "why does this take a year to do

when actually, it should take a three months or six months to do?”. Nothing directly attributable to the pandemic and resources, but I just think, for all of us, there is that hidden inefficiency, the complexity of working remotely, that inevitably it will – you know, why would it not impact the FCA and the other regulators? There is certainly evidence with the Financial Ombudsman Service that cases seem to take so long to sort out for the individual. So, I think, the pandemic, it just exacerbated some of the problems that were there anyway.

**KW:** Jon, I know the listeners will always find it really interesting to know about the disasters because it's always good to know how other people have been burned so that you can avoid it. With your vast experience of the FCA and obviously, keeping it very no-names oriented, can you talk us through someone, a client or an experience, where you've seen that the simple things they should have done, that they didn't do, really caused them an issue?

**JB:** Yeah, I think, with an increase in mergers and acquisitions, one of the things, for me, that's come through – and I was involved with a number of acquisitions of financial advice firms, as well as insurance brokers and it sounds glib but, I mean, anyone can buy a firm but actually it's the integration and extracting the value of that transaction. That is the hard part. And that doesn't happen overnight, that can take a year or two to do that. So, it's not just about the acquisition, it's about the integration and I would say, the most important aspect of that is, that whatever the driver is for the acquisition, whether it's buying a particular scheme, a particular book of business, a certain location, a certain specialism, it's all about culture and there does need to be a genuine fit with clients and staff on both sides because if there is a doubt and there is a problem, that will emerge over time. And, if there's a mismatch of expectations and a mismatch communication, then I think, that will manifest itself in lots of different ways and almost every way when it comes to the integration. So, whether you're looking at the HR regulation, propositions, pricing, I would say, you really need to do your homework and make sure there is a real cultural fit there, a genuine cultural fit because, otherwise, everything else will be ten times harder.

**KW:** Yeah, you're speaking my language in the sense of when I used to work with the big four, we used to be parachuted in to help clients with their M&A deals, you know, from the 'secret squirrel' due diligence stage, right through to the harmonisation and integration. We noticed, very early on, even through the due diligence stage, how little companies pay acknowledgement to that cultural side. I'm sure a lot of the listeners are thinking "oh culture, yes, that old thing. You know, health and safety's changed so much. I can't do anything now without a hard hat on". But actually, that culture side, really does set the strategy for the business going forward, not only when you're wanting to re-establish the C-suite, you know, which CEOs are you keeping? What are you going to do with all these CEOs? Right down to the lower levels; those individuals handing those books of business. Their used to one style of working; you want them to adopt a different one. Does the parent company have the overall decision? That culture

piece can sometimes make or break a deal, I think, from my experience. I don't know whether you would agree on that.

**JB:** I would, definitely agree and what I would say is – and I was involved in many integrations – you have to talk about change, and you have to be upfront about change and sometimes when the deal is being negotiated it's, "oh it's fine. Don't worry, it'll be great" and you know, "we're not going to come in and change this overnight" and actually, things are going to change and I would say as an acquiring firm you need to be honest about that and say, "look things will change but we want to work with you and your colleagues in the business, to make sure we agree on the pace of the change, the nature of the change, what the priorities are. So that we make sure clients continue to be looked after and make sure that staff continue to be looked after and be supported." But there will be change and you can argue about it, about branding and name changes but it's also about product placement and things like that, that are different, and you just need to be clear, "look, you know, we don't do it like that anymore. You can't carry on with that. We bought your business, and this is the way we do product placement" or "this is the way we deal with a certain process or a certain issue". So, spending a lot of time on culture and change management is important as well.

**KW:** Brilliant! Well Jon, thank you ever so much for joining us today. I think that was really useful for the listeners to be able to hear firsthand from someone with such a vast level of experience from the FCA side. In terms of anyone who wants to get more information on this, feel free to contact me or my team. You can email us directly at HR help at IHR solutions dot co dot UK ([hrhelp@IHRsolutions.co.uk](mailto:hrhelp@IHRsolutions.co.uk)) or visit our website, Insurance HR Solutions dot co dot UK ([insurancehrsolutions.co.uk](http://insurancehrsolutions.co.uk)) and Jon, should anybody want to pick your brain and they need an expert independent consultant, what's the best route for them to be able to get hold of you?

**JB:** Jon Baker Consulting dot co dot UK and that is Jon, J.O.N. Jon Baker Consulting dot co dot UK ([jonbakerconsulting.co.uk](http://jonbakerconsulting.co.uk)). I'd be happy to talk to you.

**KW:** Great! Thank you very much indeed listeners. We look forward to you joining us again on our future podcasts. Many thanks!

## **About IHR**

Insurance HR Solutions (“IHR”) is the HR arm of UKGI Group. UKGI Group offer services to insurance businesses including strategic and operational business planning, compliance support and training.

IHR has a unique HR offering for brokers and business leaders across all sectors. With over 40 years’ team experience we deliver a level of service that’s focused on supporting you in the right areas and to fit your needs.

We have created a comprehensive, personal-touch, one-stop-shop of HR support. We can cater for all your HR needs. Our team will be proactive to what your business needs to stay ahead and can relieve you of the need to think about what to do next.

Every company will have HR needs regardless of their size. Whether the need is for HR templates, employment guidance, rewards and benefit advice, or strategic HR support. Our aim is to take the heavy lifting and worry out of HR, with our team of experts.

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