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T-C NEWS

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The trainer has not left the classroom: a eulogy to classroom training for exam-based programmes.

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Best Practice – 100% better Business Case

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The current Consultation Paper from the FCA and PRA covering the introduction of the new Individual Accountability Regime makes for interesting reading (I never thought I'd say that!).

The regime changes are broad and far reaching. Although many key questions remain to be answered, it is clear that material, environmental change is coming and coming fast. The timetable for this consultation and the resulting new rules is astonishingly fast –

- ❑ CP responses by 31st Oct
- ❑ Final Rules by the end of the year
- ❑ Commencement date 6 months after that
- ❑ Possibly 12 months to implement changes to all staff

Compared to recent timetables for sweeping regulatory changes such as RDR and MMR, the 'light at the end of this tunnel' is a turbo charged bullet train with rocket boosters, running downhill – Hold on to your hats and seats and sanity!

However, from another perspective, the proposed changes are not actually revolutionary –

- ❑ Firms should be accountable and responsible for the actions and behaviour of their staff
- ❑ Staff working for Firms should be considerate of their customer's needs and the Firm's ethos and act accordingly.

I expect that everyone would agree with both of the statements above.

These proposed changes are essentially compatible and relatively similar to a number of existing initiatives being championed by the regulators. Certainly, the FCA has been increasingly clear in recent months that Firms must focus on:

- ❑ Raising Professional Standards
- ❑ Managing Conduct Risk
- ❑ Promoting appropriate Culture
- ❑ Prioritising good Customer Outcomes

So CP14/13 is the latest of the industry's initiatives to focus on achieving the aims stated above, although many Firms will not be directly impacted by these changes. The definition of 'relevant firm' (to which CP14/13 applies) is quite specific but it broadly covers UK Banks, Building Societies and very large Investment Firms.

Be aware though, even if your Firm is not being caught by these changes today, and many are not, it is quite likely that subsequent change will come along. A consequence of CP14/13 is that we will have two regimes running concurrently in the industry and a few unlucky firms and people will end up subject to both.

I strongly expect that this result, of two parallel regimes, will not persist. The existing Approved Person regime and the linked FCA Register with lists of CF30 advisers will disappear or evolve into the new Individual Accountability Regime at some point in the future. The report from the Parliamentary Commission on Banking Standards was quite clear; most of the 'powers that be' consider the current regime to have failed, so it is unlikely to remain. In fact, in the Government's response to the PCBS report (published in July) they suggested it would make sense to make changes for the whole industry at the same time, so that we could stick with one set of rules for all. Parliamentary process defeated the suggestion though and as a result we'll have to cope with two sets of rules.

> "One of the primary reasons for quantifying benefits is to inform decision making processes. If a measurement is not informing a decision, it is at risk of being pointless.

So here goes . . . most of us know what the problem is, we know what the regulators and probably our Exec Management want – so how do we deliver it?

That's easy . . . secure a large, in some cases, very large budget and run a Conduct Risk programme or a Professional Standards Initiative or a 'delivering Cultural Change' strategy – everyone will start to behave and we'll all get the right result.

Please forgive the flippancy above, but essentially the sentiment is true – we probably do know, in essence what we need or want to be doing.

By 'we' I mean T&C professionals, Conduct Risk Managers, Cultural Change teams, Professional Standards departments and our colleagues in Learning and Development and HR.

We probably do know what should be delivered to achieve or at least significantly improve these objectives, but we (almost all of us anyway) have limited resources and relatively low priority compared to other strategic programmes. This is where big regulatory changes such as CP14/13 can help us – provided we use these opportunities to secure commitment to holistic solutions that will deliver benefits across all of these closely connected obligations and aspirations.

The real questions then become, how big does the budget have to be and how can we articulate the benefits?

The issue is that most, if not all of the potential benefits are at best 'soft' and at worst completely intangible. It has been a relative 'true-ism' for a long time that it is either impossible or at least impractical to measure the effectiveness of training initiatives, so 'culture change' or 'raising professional standards' benefits are even more difficult to quantify.

The same applies to the Individual Accountability changes, to avoid the Board committing to the minimum necessary, or a risk driven 'CYA' solution that may have huge operational impact, we need to be able to show and measure that investing in the right process and technology will save money and provide efficiency and reduce risk, while fully complying – sounds too good to be true?

We can, at least, challenge these core misconceptions – everything can be measured, specifically the very real operational benefits and risk reductions that can be delivered by T&C initiatives.

Intangible benefits like these are the most important measure of success or failure for major programmes of investment into people and competence, as we will soon see in the implementation of the new Individual Accountability regime.

To make these programmes succeed, we need to be able to invest in systems, operational change, training, new process etc. and to secure the necessary budgets for these programmes we need to be able to clearly and simply articulate and evidence quantified benefits:

- ❑ Improved efficiency
- ❑ Reduced risk
- ❑ Cost savings
- ❑ Enhanced sales
- ❑ Better margins

Many business cases are based on the incorrect assumption that these benefits can't be cost effectively measured so they don't try to measure them.

Consequently, some Firms reject or constrain some of their most important strategic options in favour of low cost, limited solutions, simply because they knew how to measure some things and didn't know how to measure others. Alternatively, major investments are approved with no clear, quantifiable way to confirm their effectiveness or whether they even work at all.

This is wrong. These benefits can be relatively easily measured and they can be monitored over time, therefore the success of these T&C 'style' initiatives can be evidenced and reported.

Even better, some (most) of these benefits can be predicted before the programme starts. This means that the 'business case' we present to the Steering Committee (or similar) can include a genuine, target 'Return On Investment' and not depend on an assumptive value being placed on outcomes described as 'soft' or 'intangible'.

To be fair, some of the issue with measurement of benefits is a perception of effort and cost. People maintain that measuring training may be possible, but it requires a specific and expensive up front analysis of the current position and time consuming data gathering after.

One of the primary reasons for quantifying benefits is to inform decision making processes. If a measurement is not informing a decision, it is at risk of being pointless. Douglas Hubbard, author of 'How to Measure Anything', says "management needs a method for analysing options to reduce uncertainty about decisions – measurement is about reducing uncertainty".

It is never going to be possible to fully understand absolutely everything about a major strategic initiative and therefore make a fully informed choice, but finding ways to quantify some of the key 'intangibles' is going to be a significant help. Decisions are always based on imperfect information but our job when we are writing solution options and business cases is to present sufficient facts, clearly and simply enough for Steering Committees to feel informed and in control, giving them a degree of certainty that they are making the right choice, with limited risk.

At one of our recent clients, the business case for implementing our T&C solution was approved based on a risk reduction agenda with little or no metrics for the resulting benefits. However, we subsequently worked with them to measure the results and the results were astonishing:

❑ Adviser time spent on T&C Activities – reduced by 45%

❑ Improved Supervisor Efficiency – 35% increase

❑ Business Quality Checking Efficiency – 40% increase

These benefits alone, across approx. 50 advisers, resulted in operational savings that exceeded the system license cost by over 300% in year 1. The potential savings over time as the advice business grows become strategically significant.

It is worth remembering that these weren't the reasons the T&C programme was approved. It was approved to reduce and manage risk, improve governance and control and facilitate the target strategic growth (creating capacity in governance functions and with better visibility). Unfortunately, I can't share the metrics relating to risk reduction and governance but they tell a similar story.

When you stand back it becomes easy to see how these results can be achieved, even a 5% time saving on T&C processes, for 20 advisers, is similar to employing a new adviser for free, better even because this 'new' adviser is not a new recruit but includes extra time from your best performing people. Apply this sort of improvement across large populations, for example customer facing teams in Banking operations and investing in getting the solutions and the processes right makes a lot of sense.

These results could have been predicted though, and should have been identified in the business case – it would have been a much easier decision for the Steering Group. It would probably have been made more quickly and certainly with less stress on the managers making the case for this investment, who mostly convinced via passion and strength of agreement alone.

If anyone would like to discuss my approach to quantifying benefits, please do contact me. My details are on our website and on LinkedIn. I have been creating many different models for a good while now and I am always pleased to discuss them and how to apply them to new circumstances. It is clearly not an exact science so opportunities to test them in practice are very welcome.

So to move on to more practical issues, if you are working on or considering a business case, the following suggestions may help:

1. Do a robust Cost Benefit Analysis and remember 'Everything can be Measured'
2. Explore ways to measure and quantify the benefits of
   i. Reducing Risk
   ii. Reducing Errors
   iii. Improving Quality
   iv. Improved Professionalism
   v. Providing Real Time, accurate MI
   vi. Proactive Process Management
   vii. Effective Governance
3. Test the assumptions in your Business Case with qualified arguments – evidence that you can link the investment to the successful changes to the target results and the business benefits
4. Engage with potential suppliers of solutions – they've done this before lots of times, you should be able to get a significant amount of what is essentially free consultancy out of this process if you are genuine and open in your approach. Certainly suppliers may provide biased information but you get to review and use it, or not, as you see fit. If you ask, they are probably happy to help.
5. From Suppliers you probably want:
   ❑ Indicative Costs
   ❑ Rough idea of Timeline
   ❑ Initial attempt at 'System Landscape' / 'Solution Design'
   ❑ Ideas and Suggestions for the 'art of the possible'
   ❑ Evidence, Arguments, Examples that clarify and Quantify the Benefits
6. To help you with this, they probably need:
   ❑ An idea of possible Budget (very rough figure)
   ❑ Understanding of the 'stage' of the project
   ❑ Rough idea of key 'Issues' and 'Strategic Objectives' – Why are you doing this now?
   ❑ Rough idea of 'Requirements' – this can be very high level
   ❑ Idea of number of staff who will use the system
   ❑ Idea of the existing systems and their uses
7. Consider at the Business Case stage how you intend to measure and monitor the programme success – this will materially improve the chance of quantifying the benefits.

One final word on defining requirements, there is a tendency in Firms to want to do this themselves, in isolation of potential suppliers. This can be a mistake for many reasons but mainly it does not give you the opportunity to design your policy to maximise the potential of the chosen or potential solutions.

As an example, one of our customers engaged with us at outset in January of one year and then spent 5 months documenting requirements internally before coming back to us with an urgent need to start, scope and implement in less than 10 weeks. We delivered in time but it would have been better for everyone if we had worked together during the 5 months of 'naval gazing'. After launch we ran a second phase to re-design their approach to Licensing and Competence Assessments because they now appreciated what was possible.

In terms of Best Practise for creating a Business Case, there are many books and courses on the subject, but my recommendation is that everything can be measured and in our industry, if it is usually described as 'soft' or 'intangible' it is probably exactly what you should be quantifying – it will be 100% better.

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How do you manage conduct risk in your business?

In our experience this is not a simple question to answer, but in today's regulatory environment and ever more competitive market place, surely it is a question worth asking?

Perhaps consider the following;

- Is your conduct risk model easy to define, distribute and evidence ?
- Can you utilise your existing systems to provide a real dynamic view of individual risk ?
- Is your T&C scheme forced to adopt a 'Sheep dip' supervision approach for all individuals ?
- Are you satisfied with your file checking model, capacity and flexibility ?
- Can you proactively identify trends, risks, issues and monitor their resolution ?
- Have you got a 'joined up' approach to managing T&C, Business Quality, Risk and Customer Outcomes ?

We have delivered market leading solutions to these types of issues for our customers across the UK Financial Services market.

If cost effective conduct risk management across your business is important to you, why not talk to Redland to see if we can help?

If you would like an open discussion, on the needs of your organisation and how our Insight platform may be able to support your business, please call or visit **www.redland-solutions.co.uk**

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Formed in 2001, Redland Business Solutions is the leading provider of specialised GRC (Governance Risk and Compliance) IT solutions to the financial services and insurance industries. The company has received widespread acclaim for its Insight solution which ensures effective management in the T&C (Training & Competence) arena. The Insight platform enables critical business applications to be developed and deployed rapidly to support specific processes within financial services; including a leading edge T&C system.

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