



Unite response to the FSA Consultation Paper 10/12 Competence and ethics

This response is submitted by Unite the Union. Unite is the UK's largest trade union with 1.5 million members across the private and public sectors. The union's members work in a range of industries including financial services, manufacturing, print, media, construction, transport, local government, education, health and not for profit sectors.

Unite is the largest trade union in the finance sector representing some 150,000 workers in all grades and all occupations, not only in the major English and Scottish banks, but also in investment banks, the Bank of England, insurance companies, building societies, finance houses and business services companies.

Executive Summary

- **Unite is proposing that the FSA should actively encourage and endorse the reduction of targets to achieve the qualification requirements;**
- **The focus on improving strategic skills and qualifications has increased the burden on Unite members in the industry with signs of escalating pressures and stress among the workforce;**
- **Unite remains convinced that soft skills require to be formalised rather than being left to firms to decide how best to implement these aspects of competence;**
- **Unite believes that service should be given at least equal status to that of sales in order that the pressures which may lead to dysfunctional selling are reduced;**
- **TCF has been ignored at worst and misinterpreted at best by finance sector companies regulated by the FSA;**
- **It is vital that any new proposal on competence and ethics delivers assurances to consumers that their interests are being addressed and that finance sector companies and the FSA are taking the issue seriously.**

Introduction

1. **Unite welcomes the opportunity to respond to this consultation paper which seeks to ensure a good standard of ethics is evident in the sector and to address the negative perceptions of financial services among consumers.**

2. This response will focus on general observations regarding competence and ethics rather than prescriptive responses to the questions raised. This issue is not new. Unite has highlighted the issues of ethics, fairness and reward to the FSA and others in previous submissions.¹
3. Unite recognises that the sector continues to face intense scrutiny from many sections of society including the Government, the media and consumer groups which seek to ensure that the sector takes on board the concerns highlighted by the recent financial crisis including issues surrounding remuneration and selling techniques as well as short sighted decisions based on short term returns.
4. These behaviours have led to the industry introducing changes in practices and procedures within financial services companies as well as more robust regulatory changes which identified skills and competencies as key areas for improvement.
5. While Unite welcomes an increasing focus on skills in the sector which reflects the complexity of the industry and which is likely to increase consumer confidence and professionalism in the long term, the focus on improving strategic skills and qualifications has increased the burden on Unite members in the industry with signs of escalating pressures and stress among the workforce.

Timescales

6. Unite agrees that the timescale of 30 months within which an individual must achieve the required qualifications appears reasonable and deliverable for a level 4-5 competency equivalent provided i) adequate time off is given; ii) the necessary resources are provided; and finally iii) a suitable programme of study is in place with individuals fully supported by the organisation.
7. It is therefore important that without this level of commitment from employers, there will inevitably be pressures placed on individuals to achieve full competency and a realisation that they will be unable to participate in regulated activity until they are fully competent, with resultant negative consequences for both the firm and the individual.
8. It should be acknowledged however that there are other business requirements running concurrently which may impact on the time frame including increased regulatory constraints, changes to working practices and the level of job losses in the sector which places increased pressures on those who remain.
9. One proposal to aid companies achieve the time scales set could include target reduction. Unite is proposing that the FSA should actively encourage and endorse the reduction of targets to achieve the qualification requirements. This would be seen by Unite as good practice and show recognition by the regulator to the principles of treating the workforce fairly.
10. The emphasis should fall equally between the student to make sure they communicate their ability to achieve targets while studying and the company to ensure sufficient support is offered to ensure a positive outcome. The best way to do this is to ensure both parties communicate in active two way dialogue.
11. Unite would wish to avoid the situation where a hierarchy develops: with a fully qualified top tier of supervisors carrying out an overseeing role of those who are not fully qualified but likely to attain the necessary level and a bottom tier, who

¹ Unite response to FSA RDR DP 07/1 and FSA Pure Protection DP 10/8

while competent and adequately qualified may find obtaining the new qualification requirements problematic for personal or professional reasons.

Soft skills

12. While Unite recognises the need to focus on skills, qualifications and competence this must be coupled with the development of a 'softer' skill element. Unite remains convinced that soft skills require to be formalised rather than being left to firms to decide how best to implement these aspects of competence.
13. The FSA has stated that there is already a focus on soft skills within the competence regime. However, there would appear to be failings in the industry at this most basic level. Softer side skills were identified in the recently published Financial Services Consumer Panel Report: Consumer perceptions of fairness within financial services as "quality of communications and customer service."²
14. The report identified that while 'softer' side skills are as important as 'nuts and bolts' (provision and price) consumers were losing out through unfair experiences such as mis-selling of products, in part through poor customer service and specifically in failing to treat customers fairly.
15. The report identified that consumer perceptions of fairness within the sector were lacking and this was evident across gender, age and socio-economic circumstances.
16. Unite would argue that this may be due in some way to pressures to achieve sales over service, an issue highlighted by Unite in response to the FSA DP 10/8 on Pure Protection. The Unite response highlighted "the pressures placed upon workers in the sector who are required to sell specific products or services to reach non-negotiated targets or face the disciplinary process for failures in performance."³

Reward

17. The present system for reward in many financial services companies is based primarily on sales. Linking sales rather than service to financial reward for some individuals may not be the best method of reward to deliver the proposed additional behaviours competence of "paying due regard to the interests of a customer."
18. Unite would wish to highlight the pressures to sell higher value products to consumers which are more likely to provide greater personal financial reward (i.e. receiving bonus for reaching targets) and not necessarily in recommending a suitable product or service for the customers needs.
19. Unite believes that the delivery of excellent service should be given greater regard in the reward system at least equal to that of sales in order that the pressures which may lead to dysfunctional selling are significantly reduced.
20. Indeed many of the observations and comments made in the Unite response to DP 10/8 are pertinent to the response to this CP. Unite would therefore urge the FSA to read this response in conjunction with the Unite response to DP 10/8

² http://www.fs-cp.org.uk/publications/pdf/fsa_fairness_report.pdf

³ http://www.epolitix.com/fileadmin/epolitix/stakeholders/FSA_Pure_Protection.pdf

which looks at fairness, ethical behaviour, remuneration and corporate governance.

Delivering fairness

21. It could be reasonable to assume that consumers believed that ethical behaviours and treating customers fairly (TCF) were normal activities carried out within the sector and that the FSA, as the main regulator, was ensuring these activities were being delivered. Indeed the FSA introduced the TCF initiative in 2005. This is two years prior to the earliest signs of the onset of the financial crisis. It would therefore appear that TCF has been ignored at worst and misinterpreted at best by finance sector companies regulated by the FSA.

22. While welcoming the FSAs recent much firmer commitment to ethics it is nevertheless disappointing, and a sad reflection on the industry itself that ethical behaviour now requires regulatory enforcement to ensure it is adhered to. It is vital that any new proposal on competence and ethics will deliver assurances to consumers that their interests are being addressed and that finance sector companies and the FSA are taking the issue seriously. It would be inconceivable that another proposal could be put in place which fails spectacularly to safeguard those it is intended to protect and fails yet again to deliver fairness.

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