



Chartered  
Insurance  
Institute

Standards, Professionalism, Trust.

# Professional approaches to regulation

In association with



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[cii.co.uk](http://cii.co.uk)

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## The Chartered Insurance Institute (CII)

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The CII is the largest professional body for the Insurance and Financial Planning professions, with more than 127,000 members in over 150 countries.

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Our purpose is to build public trust in insurance.

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We do this through the provision of insightful leadership, relevant learning and an engaged membership.

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This report forms part of our programme of insight – delivered with and on behalf of the profession – to drive positive action in support of society's experience of insurance.

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## Contacting the CII

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## Executive Summary

Economics, Policy and Competition (EPC) has been asked by the Chartered Insurance Institute (CII) to provide a report examining the link between professionalism, including that encouraged through the CII's Chartered status, and delivering compliance with regulation.

A starting point for professionalism is for individuals to have technical competency in the areas of work that they are providing. Professional exams help build technical competency enabling individuals to increase their understanding of the sector and signal that ability to employers and customers. In turn, this should bring greater confidence and trust in the market, bringing market expansion, higher quality products and services, and increased productivity.



## Executive Summary



However, professionalism goes beyond technical skills that are assessed through one-off exams. Technical exams do not test for values such as ongoing integrity and the benefits of qualifications may dissipate over time. Professional bodies can help individuals, and not just firms, to meet certain standards (with the importance of individual responsibility recognised through the Senior Managers and Certification Regime (SM&CR)).

Hence, the CII views professionalism as encompassing both competence and integrity, which together combine to lead to care for customers.

The development of codes of ethics can help reduce wrongdoing, and give support to individuals wishing to challenge internal structures and improve compliance processes. Codes of practice and good practice guides help to bring practical examples of how best to meet or exceed regulatory requirements and these can often be adapted to changing market circumstances more quickly than formal rule-making such as seen through the Pension Transfer Gold Standard (PTGS). Professional bodies can also have a galvanising effect on relevant issues, such as the CII's Insuring Women's futures initiative, helping to shift social norms.

There are various sources of data that could be usefully collated over time in order to help consider the extent to which individuals and firms that take professional approaches to regulation help to deliver compliance and high quality

outcomes for clients. This includes measures such as the CII's public trust index, growth of firms, examining whether consumers understand their products, and reductions in costs from complaints, regulatory penalties and PII.

Information on technical competence can be gathered on the numbers of individuals or firms with particular qualifications, CII membership and Chartered status. Information on ongoing professionalism could include: the extent to which CPD is focused on particular issues e.g. pension transfers; the number of firms and individuals that participate in CII initiatives such as Personal Finance Society initiatives, the PTGS, pro bono work and Insuring Women's Futures; market-based indicators such as the need for codes of practice when obtaining PI cover as has been observed with the PTGS; the numbers of downloads of different good practice guides; and attendance at CPD or other professional body events in which attendees are exposed to social norms and case study examples of best practice and assists individuals in applying ethical approaches in their working life.

With sufficient data, the impact of professionalism could be assessed through comparisons between the outcomes for individuals or firms with, and without, particular indicators of professionalism; as well as assessing these outcomes and indicators of professionalism over time.

# 1 Introduction

Economics, Policy and Competition (EPC) has been asked by the Chartered Insurance Institute (CII) to provide a report examining the link between professionalism, including that encouraged through the CII's Chartered status, and delivering compliance with regulation.

The CII is keen to see an insurance sector that acts with professionalism at all times and its Chartered status is an important way of delivering this. Part of this includes firms meeting regulatory requirements and expectations, and the CII would like to see a recognition that being professional is an efficient form of delivering compliance.

A starting point for professionalism is for individuals to have technical competency in the areas of work that they are providing. The CII has a strong background in requiring and delivering the education that builds this competence and testing this through exams. However, professionalism goes beyond technical skills that are assessed through one-off exams. Technical exams do not test for values such as ongoing integrity and therefore other approaches are needed to develop additional characteristics of professionalism including abiding by codes of ethics and practice, and having desirable social norms and choice architecture (i.e. the environment and way on which designs are presented). The aim of this report is therefore to consider both the one-off technical competence and ongoing behaviour that combine to deliver professionalism.

The intent is that the report should work with the grain of the direction of regulation from the

Financial Conduct Authority (FCA) including by building on the FCA's Occasional Paper into Behaviour and Compliance in Organisations. It also aims to build on the recognition in recent regulation of the importance of individuals and culture in decision-making such as has been used to support the Senior Managers and Certification Regime (SM&CR).

The rest of the report is structured as follows:

- **Chapter 2** of the report considers the reasons for professional education and exams;
- **Chapter 3** examines wider aspects of ongoing professionalism more generally; and
- **Chapter 4** sets out the benefits from professionalism as well as the types of information that could be collected to demonstrate this over time.

The data set out in Chapter 4 is of particular importance because, currently, the CII does not have sufficient data to be able to clearly show whether the benefits of professionalism set out in this report arise in practice within its membership. Hence gathering this information will be important for the CII to be able to demonstrate this over time.





## 2 Professional education and exams

This chapter sets out some of the theoretical reasons why professional education and exams are of benefit and how they might affect the insurance sector. Chapter 3 considers ongoing benefits from professional bodies beyond a narrow focus on exams.

There are two main theoretical reasons why professional education brings benefits which are to:

- Increase understanding; and
- Signal ability.

## Professional education and exams



### 2.1 Increased understanding

In many ways, the most obvious benefit of professional qualifications is the same as that for education more widely, namely that it increases understanding and capability in the field in which individuals are educated. Through education, individuals learn about a particular area which increases their own knowledge about that area, adds to their human capital and raises productivity.

Formal education is not the only way in which this increased understanding can come about, since learning on-the-job over time can also provide similar benefits. Nonetheless, exam-based professional education would be expected to bring a systematic and broadly comparable baseline in understanding among those taking the same qualifications. On-the-job training is likely to add specific tailoring of that knowledge to particular firms and areas of work, as well as experience in dealing with different situations and ensuring that knowledge is up to date.

### Retail Distribution Review

The Retail Distribution Review (RDR) provides a useful case study for the importance of both qualifications and other aspects of professionalism. The Financial Services Authority (FSA) brought in qualification requirements which they stated were aimed at improving professionalism by delivering consistent and enforced standards.<sup>1</sup> They expected that this would have a positive impact on the reputation and levels of consumer trust in the sector, increase consumer engagement and improve the quality of advice.

The link to qualifications can be seen from evidence from before the RDR requirements came in, where the FSA examined the suitability of advice compared to the qualifications held by advisers. They found that there was evidence of higher quality advice being delivered for those with Chartered status (advice was suitable in 71% of cases) compared to those with diplomas (43%) who in turn gave higher quality advice than those at certificate level (11%).<sup>2</sup> A subsequent review in 2017 found that advice was suitable in 93% of cases.<sup>3</sup>

<sup>1</sup> *Delivering the RDR: Professionalism, including its applicability to pure protection advice, with feedback to CP09/18 and CP09/31, Financial Services Authority, June 2010.*

<sup>2</sup> *Other advice was either unclear (29% for chartered, 32% for diploma, 60% for certificate) or unsuitable (25% for diploma and 29% for certificate). Similar evidence for the link between qualifications and the quality of advice was also found in Australia.*

<sup>3</sup> *The Assessing Suitability Review – Results, Financial Conduct Authority, May 2017. The increased suitability is likely to reflect other aspects of the RDR as well as the qualification requirements and also the FCA's supervision and enforcement activity surrounding financial advice.*

## Professional education and exams

Within the insurance sector there are also many key benefits for end-customers of a workforce with professional qualifications, both in the manufacturing or product development stage and also with respect to advice on these products.

It is important that qualifications are credible in revealing that individuals have met a particular level of understanding in their chosen field. Exams that are designed such that anyone could pass them without having acquired particular knowledge will not increase understanding in practice and therefore will not deliver the effects explained below.

### 2.1.1 Market expansion

As with education more generally, there are positive effects associated to professional qualifications in the insurance sector. In particular, as qualification levels increase, and the workforce has a better understanding of products and customer needs, this would be expected to lead customers to have greater confidence and trust in the insurance sector generally. In turn this is likely to lead to an expansion in the size of the insurance market as some consumers that were previously unwilling to use insurance products or services (including in relation to advice on these products) begin to do so. This is a benefit that accrues both to the market as a whole as well as to specific individuals or firms:

- If insurance generally is seen as a trustworthy sector, then all firms would gain from this and more consumers would be willing to engage with the sector; and
- If a particular firm or individual is seen as trustworthy, then consumers using that firm or individual are more likely to follow recommendations or purchase their products.

In this way, professional qualifications are analogous to regulation generally in terms of a market expansion effect.<sup>4</sup>

### 2.1.2 Higher quality products and services

As well as the general effect of expanding the size of the market, professional qualifications typically lead to higher quality products and services. The CII's various insurance qualifications involve learning about both business functions and different insurance products:

- Business functions include: underwriting, claims handling, legal and regulatory issues, customer service, insurance broking, risk management, the London market, insurance law, contract wording, delegated authority, risk management, insurance business and finance, marketing, strategic risk management, risk financing and transfer; and

- Products include: motor, household, healthcare, packaged commercial insurance, cargo and goods in transit, aviation and space, commercial property and business interruption, liability insurance, reinsurance, marine hull, life, critical illness, disability, long-term, and private medical.

Professional qualifications such as these should increase the understanding of the insurance sector in a variety of different ways:

- Increased knowledge of insurance products and the different needs that these products fulfil leading to products that are appropriately developed and targeted at different customers;
- Increased understanding of different types of risk that can arise in different sectors, ranging from business interruption to liability insurance, helping customers recognise and seek protection from relevant types of risk;
- Increased understanding of the range of products available, from commercial property to aviation insurance reducing asymmetric information about the marketplace, helping product developers and advisers to have a framework of what products exist and ensuring that they are able to seek further more specialised products or advisers when necessary;

<sup>4</sup> This should not be a particular surprise since, historically, professional societies and their exams or training-based requirements have often been the root of regulation in many areas.



## Professional education and exams

- Increased understanding of service issues for customers, leading to better processes to deliver appropriate levels of service; and
- Increased understanding of claims and claims handling, leading individuals to be better able to help customers through the process, including knowing the information required to make claims, as well as identifying common areas where claims are declined so as to help customers assess the value of products.

Overall, higher professional qualifications would be expected to lead to better outcomes for customers as products and processes are designed to meet their needs, and advisers can help to identify and match products to these needs. It is expected that this would lead to less mis-selling, fewer complaints, and customers valuing insurance products to a greater degree.

### 2.1.3 Increased productivity

A further recognised benefit of education is its positive impact on productivity and innovation. A workforce that understands business functions and specific types of insurance is likely to be more efficient in processing functions. Staff that understand legal and regulatory concerns and have an overall view of how the whole insurance sector fits together are likely to make fewer mistakes that other parts of the business have to correct, therefore raising the productivity of others as well. Professional qualifications that enable a clear understanding

of existing products and needs also helps reveal potential gaps in business functions and products, and to facilitate innovative solutions to fill these gaps.

### 2.1.4 Risk of market contraction

A possible impact of professional qualifications (or regulation more generally) is also to restrict the size of the market. If qualifications are set too high, or restricted to a small number of people, then this can prevent entry which therefore limits competition and tends to raise prices. In addition, expensive qualifications (as with expensive regulation) raise the cost of doing business which, as a consequence of raising prices, can reduce the size of the market as some customers can no longer afford to buy products or take advice. While this issue is not considered further in the report, it serves to highlight the importance of considering all likely impacts of regulation and professional qualifications when assessing whether they are beneficial.



## Professional education and exams

### 2.2 Signalling ability

An alternative explanation for the role of certain types of education is that rather than increase the ability of individuals, education simply acts as a signal to identify those individuals that are already of high ability. The theory implicitly assumes that all individuals are able to access similar standards of education, which is not the case in reality.<sup>5</sup> It also downplays the role of education in raising standards and contributing to human capital although, in practice, most qualifications will combine elements of both increasing ability and signalling that ability.

Typically the signalling theory is applied to the individual employee seeking work. Simplistically, employers do not have an ability to easily determine whether potential employees are of high or low ability. High ability individuals therefore undertake additional education not because it raises their ability or increases productivity, but because it enables them to signal to potential employers that they are the individuals of high ability. By contrast, low ability individuals do not undertake additional education because the intrinsic cost or difficulty of doing the education is too great. Hence employers identify the high ability employees because they are the ones who have undergone additional education.

A similar signalling theory can also be applied to individuals or firms when engaging with their customers. Holding a professional qualification can therefore signal to potential customers that the individual or firm is of high quality. For this to be effective, customers need to be able to recognise and understand the signalling effect i.e. they need to at least partially understand that the individual or firm holds such a qualification and to value this as an indicator of quality.

A further aspect of this for professional exams is that taking such exams can also signal a long-term commitment to a particular sector, since while such exams are highly transferrable within that sector they may have less value to firms outside the sector (beyond showing an ongoing commitment to learning). As such professional exams, and indeed membership of professional bodies, can be used by future employers and customers as an indicator that individuals are more likely than others to remain within the sector.

Even in its purest form in which there is no increase in human capital from professional qualifications, signalling can still bring benefit to customers. In particular, if customers do recognise the professional qualification, and are

encouraged to search and choose on the basis of this qualification, then it will have the effect of switching some customers from lower quality individuals or firms towards higher quality individuals or firms. The individuals and firms with qualifications would therefore receive more business than others without the qualifications and all of the various benefits described in section 2.1 would arise in respect of those customers using the higher quality individuals and firms. For this competitive effect to arise, it must be the case that not all individuals or firms hold the professional qualification since in that circumstance qualifications would not function as a differentiator between firms.<sup>6</sup>

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*In reality, barriers to accessing education may prevent some individuals from obtaining the qualifications that enable them to accurately signal their ability.*

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*The market expansion effect described in section 2.1.1 could also be driven by a signalling effect at the level of the whole market as well as through the quality raising effect described in that section.*

### 3 Ongoing behavioural benefits of professional standards

As described in Chapter 2, professional qualifications and exam based assessments are expected to both raise the quality of individuals and firms, and also signal high quality to customers. However, there is a danger that qualifications impact only technical competence rather than behaviour, and that the benefits of qualifications might dissipate over time. Hence this chapter considers the ongoing behavioural effects from professionalism which arise over time.



## Ongoing behavioural benefits of professional standards

### 3.1 Challenge of relying on firm-based credible deterrence alone

At different stages in regulatory development, there has been recognition of the importance of the credible deterrent of enforcement as a method of seeking compliance. This has led to regulatory focus on both increasing the probability of detection of compliance failures, and also increasing the punishment when such failures arise. In theory, the increased likelihood of being found out, and the higher punishment, should reduce the willingness of individuals and firms to break the rules.

This approach has had some success, but compliance failures continue, including serious and repeated breaches of FCA rules. In addition, there are complex interactions that arise between the incentives faced by firms as a whole, and the incentives faced by different individuals at these firms. This raises questions surrounding the sufficiency of relying on a strategy of credible deterrence alone which is aimed mainly at *firms* rather than *individuals*.

### Senior Managers and Certification Regime

The Senior Managers and Certification Regime (SM&CR) is designed to address concerns that there was previously an absence of individuals taking responsibility for the actions of their firms.<sup>7</sup> The SM&CR consists of three broad areas:

- Senior Managers Regime – which brings greater individual responsibility and accountability for senior managers of firms and is designed to change and improve behaviour within firms with the FCA expecting this to also promote public confidence in financial services firms;
- Certification Regime – which makes clear that firms, rather than the FCA, are responsible for ensuring that staff are fit and proper to do their jobs. This overcomes the concern that the previous reliance on the FSA to do this meant firms were absolved of responsibility and therefore removed additional checks that may otherwise have occurred;<sup>8</sup> and

- Conduct Rules – which cover all but ancillary employees, are high level principles intended to drive up standards of individual behaviour. A second set of rules applies to Senior Managers.

Each of these aims to raise standards and to improve the culture and governance of financial services firms. The FCA has stated that the combination of these factors should bring benefits including deterring, and therefore reducing, misconduct. In turn this should reduce harm to consumers, increase effective competition, improve decision making and lead to better, cheaper products for consumers (assuming the benefits outweigh the cost of the regime).

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*See Extending the Senior Managers & Certification Regime to FCA firms – Feedback to CP17/25 and CP17/40, and near final rules, Policy Statement PS18/14, July 2018 and the equivalent Policy Statement PS18/15 applying to insurers*

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*See Behaviour and Compliance in Organisations, FCA Occasional Paper 24, December 2016. The paper describes the possibility that this could be seen as a form of moral licensing which overrides the moral considerations that might otherwise have acted as a check on wrongdoing.*

## Ongoing behavioural benefits of professional standards

### 3.2 Components of professionalism

Organisations such as the CII seek to bring enhanced professionalism to the insurance sector. As such, they can build on the aims of FCA regulation such as the SM&CR to ensure individuals take a professional approach to their work. In particular, professionalism can seek to address certain behavioural weaknesses that are identified within firms.<sup>9</sup>

As with the SM&CR, professionalism delivered through bodies such as the CII aims to build trust and engagement in the sector on an ongoing basis which would be expected to raise standards and improve ongoing compliance over time. There are a number of specific ways in which this can arise as discussed below but it is also worth noting that holding CII Chartered membership or Fellowship involves a commitment to professional standards. In particular, members must contribute to the journey towards a united, trusted profession, contribute to public trust in the profession and promote corporate social responsibility.

It is also important to recognise that membership of a professional body alone does not mean that individuals are fulfilling the requirements of membership. The ability to sanction individuals or firms that fail to meet the necessary standards is important in ensuring the credibility of both the

professional body and the profession as a whole.<sup>10</sup>

#### 3.2.1 Codes of ethics

The FCA has noted that codes of ethics, particularly when individuals are reminded of them at a salient point, can influence behaviour in a positive way, with improved decisions and a lower likelihood of compliance breaches. Further, in connection with the RDR, the FSA previously stated that, “We see value in having codes that explain in more detail how ethical behaviour applies in different roles and sectors, so we encourage advisers to turn to their professional body for help and support.”<sup>11</sup>

Membership of the CII requires signing up to a Code of Ethics. The Code covers five core duties regarding how individuals must behave with the aim that this will help individuals to build a reputation of being trusted and taking personal responsibility for upholding the intent of regulations and other laws. The CII also provides case studies to help to see how the Code would apply in practice in different circumstances.

Reminders of codes of ethics have been found to reduce the extent of wrongdoing since individuals find it harder to justify such behaviour to themselves when they have recently

been exposed to expectations of better behaviour. The CII’s Code starts with a requirement to comply with the Code and all relevant laws and regulations. As such, it reinforces the link between professionalism and regulatory compliance. Other aspects of codes of ethics can also help to persuade individuals to speak out about areas of firm culture and processes that might be in conflict with these codes. For example, individuals might be more willing to challenge internal incentive mechanisms where they see the danger that these might lead to consumer harm.

It is also possible that such codes of ethics, particularly when adhered to by senior managers within firms, can also positively influence the culture of the wider firm bringing benefits to consumers not only via the individuals signed up to the codes, but also from others who are influenced by those individuals. In this regard it is also notable that to obtain the CII’s Chartered Status, all board members must be members of the CII and at least one board member must hold a Chartered title themselves.<sup>12</sup> In addition, 90% of customer facing staff must be members of the CII, and the firm must have policies that align with the CII Code of Ethics and have professional development plans in place.

<sup>9</sup> See *Behaviour and Compliance in Organisations*, FCA Occasional Paper 24, December 2016. Section 3.2 draws on this paper and seeks to apply some of the issues raised there to the CII’s area of influence.

<sup>10</sup> *The CII may terminate corporate status where the firm is in material or persistent breach of CII rules and has the right to publicly announce decisions in relation to Chartered status.*

<sup>11</sup> *The CII may terminate corporate status where the firm is in material or persistent breach of CII rules and has the right to publicly announce decisions in relation to Chartered status.*

<sup>12</sup> *In some cases Chartered status or membership of other professional bodies can substitute for some of the requirements.*

## Ongoing behavioural benefits of professional standards

Codes of ethics may also apply in specific areas with, for example, the CII developing a digital Code of Ethics. This code recognises that rapid transformation of markets may result in the profession operating in areas not yet defined explicitly by regulation and therefore the code highlights the importance of abiding by the spirit of regulation and not simply the letter of regulation. As with the overall Code of Ethics it raises questions that individuals and firms should consider with respect to the application of the Code of Ethics to digital issues including in relation to the use of data and digital processes.

Further, when mistakes have been made, codes of ethics can be used to encourage individuals to acknowledge their mistakes and help to redesign processes to prevent others from making similar mistakes. This helps to protect against situations where those who realise they have made mistakes seek to hide this information in the hopes that they are not penalised for it.

Combining a code of ethics with requirements from the CII for Continuing Professional Development (CPD) can also ensure that knowledge is up to date with any market changes. As such it can encourage CII members to go beyond the bare regulatory minimum and seek to deliver better outcomes for customers.

### 3.2.2 Codes of practice

While codes of ethics seek to bring positive values to bear on situations, codes of practice developed by organisations, such as the CII, can also be used to help to operationalise some of the SM&CR conduct rules that apply to all employees. For example, such codes of practice can be applied in different areas of the insurance market or different parts of the value chain such that individuals understand what acting with due care, skill and diligence would look like in reality, and what would be considered to be proper standards of market conduct. As such they can give detail in specific situations and tailor guidance to particular parts of the insurance sector or particular types of firm.

In some cases these codes of practice may go beyond requirements of regulation in order to raise standards. They may also be able to respond to emerging issues to set out important behaviours at a principled level at a time before regulators are able to act through more formal rule-making.

### Pension Transfer Gold Standard

A clear example of benefits of professional bodies in developing codes of practice is that of the Pension Transfer Gold Standard (PTGS) developed by the Pensions Advice Taskforce. The PTGS was developed with a particular concern that unprofessional advisers were causing consumers to transfer valuable defined benefit pensions into poor quality products.

The PTGS sets out nine principles including helping clients understand when advice is appropriate and when they may incur charges; requiring the need for pension-transfer-specific Continuing Professional Development; requiring specific management information to be kept including in relation to customers choosing not to take regulated advice; and ensuring all prospective clients have received the Consumer Guide to the PTGS before entering the advice process.

Notably, one professional indemnity (PI) insurer stated that it would take into account whether advisers had signed up to the PTGS when providing insurance, indicating the credibility of the PTGS in raising standards. As such it demonstrates how a voluntary code can help to raise standards beyond those in regulation to help identify higher quality firms. In part the PTGS also helped to overcome concerns that insurers may otherwise have been unwilling to provide PI cover for pension transfers.

## Ongoing behavioural benefits of professional standards

### 3.2.3 Changing social norms

A key element of professionalism is the affinity that can be generated within membership organisations for the reputation and brand of the sector and others within the group. Organisations such as the CII can play a powerful role in terms of altering the social roles of what is, and is not, acceptable professional behaviour. Including behaviours, such as challenging unlawful, unfair or unconscious discrimination, within the Code of Ethics can also help to change social norms and improve workplaces in respect of diversity and corporate social responsibility.

Qualifications and regular, ongoing links to professional organisations can help to build a social network of like-minded individuals who seek to develop new cultural norms for the sector. It should be recognised that there can be downsides of this if such organisations seek to raise entry barriers or collude in undesirable ways. Yet, there are also benefits from encouraging individuals to conform to professional standards over and above any processes that they may face within firms. In this way, professional standards can help overcome any company based group-think because individuals have an additional framework through which compliance can be assessed. The FCA has noted that the approval or disapproval of peers can be a strong predictor of the likelihood of breaking rules and professional organisations can be important ways of bringing this peer approval.

At its most straightforward, this can be as simplistic as developing a view in which individuals with professional qualifications are seen to be those that hold to high ethical standards and identify with the best way of delivering compliance with regulation. It can also involve encouraging individuals to progress and continue to learn over time by setting a path for them to make progress and gain qualifications, as well as having the expectations that such learning does not end with meeting particular qualifications but continues throughout people's careers.

While professional bodies can not be expected to change social norms on every issue, with relevant issues such as Insuring Women's Futures, a professional body can have a galvanising effect and be a place which operates as a catalyst for change across the profession. Reporting on and publicising such issues can help to shift social norms on key issues. This arises both through the formal work done via professional bodies but also by equipping professionals within the sector with resources to help them engage on particular topics. In turn this also provides a forum and framework generating support for individuals to be able to raise relevant applications of the issue in their own firms. Other issues of professionalism can therefore also be addressed and debated through regular events hosted by professional bodies.

### Insuring Women's Futures

One example of changing social norms is the CII's work on Insuring Women's Futures. This aims for the insurance and personal finance profession to work together to improve women's lifelong financial resilience and some of the root causes of women's pensions deficits. As well as improving women's pensions outcomes, the work aims to support young women to engage with their financial risks in life, improve female financial inclusion, raise awareness of women's risks in society, and develop financially-inclusive flexible working good practice within the profession to help improve the gender balance. Part of this recognises that women are exposed to different risks from men and therefore different products and services may be required to meet their particular needs.

## Ongoing behavioural benefits of professional standards

### 3.2.4 Changing the choice architecture

Concerns surrounding behavioural biases lead organisations, as collections of individuals, to be subject to many of the same weaknesses as individuals. Professional organisations can help to alter the choice architecture under which individuals make decisions.

For example, the FCA suggests that endowment effects, in which individuals value what they already have, could lead to compliance processes that individuals and firms are unwilling to alter even if there might be rational evidence to do so. Professional organisations can help individuals to take an unbiased approach to this, leading to individuals challenging existing processes and thereby causing the development of best practices and a willingness to improve compliance processes.

Recognising the role of codes of ethics and codes of practice could lead these to be embedded in compliance processes. Reminders of these codes during product design processes, or shortly before advice is given can also strengthen their effectiveness. Such codes could also play an important role in helping individuals to engage moral reasoning rather than simply take a tick-box approach to regulation in order that individuals themselves feel more responsible for the decisions and with codes of ethics representing the moral standards to which they compare their approach.

Such approaches would also be expected to differentiate for the different circumstances of

different firms. For example, there is a danger that professional firms, that wish to be well run and meet regulatory expectations, only see examples of best practice which are appropriate to large firms rather than to the greater number of smaller firms. Appropriately tailored codes of practice can recognise that there is not necessarily a one-size fits all approach in regulation and therefore can help to arrange the choice architecture in a manner that is most appropriate to particular business models. Professional organisations, often in combination with regulators, can therefore help firms through delivering best practice examples across the whole value chain for a variety of sizes and types of firm. Such flexibility in approach for small and medium firms compared to larger firms would also be expected to lead to greater efficiencies in the business and a lower burden of regulatory costs.

Where issues emerge, perhaps as a result of legislative changes or due to innovation in other areas with implications for insurance, professional organisations may be able to respond faster to emerging concerns than the regulator can through formal rules. Professional bodies and their members that are proactive and seek to develop standards in an appropriate way over time would be expected to deliver high quality compliance over time, as well as for this to support collaborative development in regulation.







## 4 Assessing outcomes of professionalism

This Chapter considers how the outcomes of professionalism could be assessed including examining the types of information that could be usefully collated over time in order to help consider the extent to which professional approaches to regulation help to deliver compliance and high quality outcomes for clients.

## Assessing outcomes of professionalism

### 4.1 Potential indicators

#### 4.1.1 Public trust

The CII has already created the public trust index to assess the extent to which consumers and small businesses trust the profession. Over time it may be possible to combine information from the public trust index and how it changes to issues surrounding professionalism:

- How trust varies according to whether the insurer or broker firm used has Chartered status; and
- How trust varies according to whether the individual brokers used by consumers and firms hold particular qualifications.

#### 4.1.2 Market size

Being regarded as a trusted professional individual or firm should increase the number of customers both as the market as a whole expands and also as some individuals or firms gain in comparison to other because they are able to signal their higher quality compared to competitors. Useful information that could be used to assess this would include considering:

- Whether firms with a greater proportion of staff who are members of professional bodies see greater growth in the size of their firms compared to others. With sufficient data, this could be split by different types of business lines.

#### 4.1.3 Higher quality products and services

Both customers and firms would be expected to gain from having higher quality products and services as professionalism ensures that individuals focus on developing products and services that better meet customer needs. Some of this would be expected to result from a diversion of effort that is genuinely aimed at serving and meeting customer needs rather than aimed at seeking to exploit customer behavioural biases. Similarly, improved cultures within firms that seek to identify the needs of customers should lead to increased innovation due to improved collaboration within firms.

As part of the RDR process, the FSA was able to gather data on the suitability of advice by the qualification level of advisers, which showed a clear link between quality and qualifications. With a wider set of insurance products and clients, gathering data on suitability may be too narrow for the purpose of considering the impact of professionalism. However, some information could be gathered regarding customer satisfaction in their insurance products and how these link to measures of professionalism including gathering data on whether customers have confidence in the insurance products such as:

- Whether customers understand the nature of the product and any exclusions; and
- Whether complaints are handled professionally.

#### 4.1.4 Cost base

As with the intent of SM&CR, professionalism should reduce customer harm and improve outcomes for consumers. It would be expected that this would lead directly to lower costs from a number of different sources including:

- Reductions in complaints;
- Reductions in regulatory and other penalties associated to poor quality; and
- Reductions in insurance costs such as professional indemnity insurance.

As well as the reduction in direct monetary cost associated to many of these areas, it is also expected that there would be a reduction in the management time associated to dealing with the various categories which in turn would also lead to reduced costs or deployment of resources into alternative, more productive, areas.

#### 4.1.5 Professionalism indicators

It is expected that professional qualifications and cultural change associated to bodies such as the CII would bring benefits but being able to assess this will also require evidence to be gathered on the extent to which individuals and firms actually engage with their professional organisations. Hence some of the indicators

## Assessing outcomes of professionalism



highlighted above may need to be compared to other data to help to consider the link between professionalism and the outcomes for clients.

In line with the rest of the report, the indicators are split into those relating directly to one-off qualifications and those relating to ongoing aspects of professionalism. The useful data that could be gathered in this regard is as follows:

### **In relation to qualifications:**

- The number and proportions of individuals with Senior Management Function responsibilities with CII membership or Chartered status;
- Proportions of relevant employees within firms which have, or are working towards, particular qualifications;

### **In relation to ongoing aspects of professionalism:**

- Additional exam modules being taken by those who already have a needed qualification;
- The extent to which CPD is focused on particular issues e.g. pension transfers;
- The number of firms with CII Chartered status;
- The number of firms and individuals that participate in other CII initiatives such as
  - Personal Finance Society initiatives;
  - Pension Transfer Gold Standard;


- Pro bono work such as for veterans of the armed forces or work in schools;
- Insuring Women's Futures;
- Market-based indicators such as the need for codes of practice when obtaining PI cover as has been observed with the PTGS;
- Numbers of different specific good practice guides as well as the numbers of downloads for each of these guides as a proxy for the extent to which these are being used by the profession; and
- Attendance at CPD or other professional body events in which attendees are exposed to social norms and case study examples of best practice.

With sufficient data, it would be possible to assess the impact of professionalism through comparisons between the outcomes for individuals or firms with, and without, particular indicators of professionalism. Alternatively, this impact could be assessed by examining outcomes for individuals or firms and considering how these link to the indicators of professionalism over time.

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