

PROFESSIONALISM FOR THE 21ST CENTURY – REVISITED

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The Chartered Insurance Institute

As the leading professional body for the insurance and financial services sector with over 100,000 members in more than 150 countries, the CII Group is committed to protecting the public interest by guiding practitioners in the sector towards higher technical and ethical standards. We do this by offering them a broad portfolio of services and support to achieve this, including membership, qualifications, continuing professional development, thought-leadership and the maintenance of a benchmark Code of Ethics.

www.cii.co.uk



Foreword

Professions play a crucial role in our society, guiding us through all aspects of our day-to-day life: from birth to education, legal and financial affairs, the built environment, business management and employment, and ongoing emotional and physical health.

The legacy of British professions is rich, but should not be taken for granted. The professions face serious but legitimate challenges posed by the evolution of consumerist values, increasing media and public scrutiny, and the steady creep of regulatory encroachment.

The banking crisis and its consequences have starkly illustrated the grim consequences of a lack of professional standards. In the public's mind, financial services needs a sharp wake-up call and the reputational damage extends well beyond banking.

As a sector, we must work to restore public trust and confidence by strengthening our commitment to professional standards, including an obligation to ethics and integrity and to continuous learning and improvement. That is why the CII has been guiding our members towards greater professionalism in all aspects of their practice.

This is the latest in a series of papers on professionalism designed to explore these issues, identify best practice, and support members in their day-to-day working life. The series began the original *Twenty-First Century Professionalism* paper.

Twenty-First Century Professionalism Revisited updates the debates we have had along the way. It gives an overview of what professionalism means, how the professions have evolved, key challenges, and updates our vision for the future of professionalism. While the paper focuses on the issues most relevant to our members, it also sets our profession in the context of other professions and looks at best practice in other sectors. It identifies the key characteristics of the 'new wave' of professions, focusing outwards towards the public not just inwards to the profession itself.

I am confident that the CII, on the cusp of celebrating the centenary of our Royal Charter, can meet the challenge of becoming a modern profession. Indeed, the Institute has the unique opportunity to build on our legacy and guide the sector to a new standard of excellence fit for the twenty-first century while supporting our Royal Charter's ambition to 'secure and justify the confidence of the public'.

Dr Alexander Scott
Chief Executive Officer
The Chartered Insurance Institute

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1. Defining Professionalism

- **Fundamental Tenets:** there are many definitions of professionalism, but there is a general consensus on the basic characteristics of qualifications, standards, and duty to the public interest.
- **Professional Firms:** increasingly firms need to demonstrate professionalism.
- **History and the Royal Charter:** professionalism has come a long way since its Victorian inception.

A starting point to any understanding of British professions in the twenty-first century is an appreciation of what it has meant to be a profession up to this point.

This is no easy task. There is no single, generally accepted definition of ‘profession’ in the English language. The term has various meanings, ranging from the strict interpretation of the traditional professions of medicine, law and accounting, to the very broad meaning of expertise and competency in any field – e.g. ‘professional footballer’.

One of the most common definitions is by Sir Alan Langlands: those occupations¹ ‘where a first degree followed by a period of further study or professional training is the normal entry route and where there is a professional body overseeing standards of entry to the profession’.²

Fundamental Tenets

Many other interpretations of the concept of professionalism exist. The CII commissioned Deloitte to undertake a study into professionalism in 2007, including extensive desk research as well as a series of in-depth interviews with a variety of industry representatives and stakeholders.³ This research helped inform the CII’s thinking and belief that a new framework for professional standards is required.

Deloitte’s research suggests that there is a broad consensus that the following characteristics have traditionally been considered primary components of professionalism:

- **Acting in the client’s interests:** members offer professional judgement, objective advice or guidance and act in the best interests of the client.
- **Code of practice:** members observe a code of practice or conduct that describes the desired standards of behaviour.
- **High entry standards:** in the form of examinations that are not easy to pass and require an initial lengthy period of study.

¹ Langlands, Sir Alan. ‘Gateways to the Professions.’ 2005. Available from: http://www.bis.gov.uk/assets/biscore/corporate/migrated/publications/g/gateways_to_the_professions_report.pdf Date accessed: 18 October 2011.

² Ibid.

³ ‘Professionalism and reputation.’ 2007. A report by the Chartered Insurance Institute. Research carried out by Deloitte and Touche LLP. Available from: http://www.knowledge.cii.co.uk/system/files/pfs_rdr_professionalismandreputation_2007_o.pdf Date accessed: 18 October 2011.

- **Ongoing competence:** maintaining a high degree of competence and expertise involving training and continual professional development.
- **Regulation by an independent body:** effective regulation increasingly in the form of an independent body responsible for setting disciplinary procedures and monitoring behaviour.
- **Member accountability:** members are subject to an objective form of censure and are accountable to the profession for a breach of expected technical and ethical standards.
- **Enforcement and discipline:** the nature of censure is sufficiently punitive to encourage members to maintain standards in line with requirements. This typically includes being named and shamed and potentially barred from the profession and thereby being unable to practice.

Professional Firms

These fundamental tenets of professionalism apply on an individual level. But increasingly firms also need to demonstrate professionalism. The 2007 Deloitte paper described additional characteristics for *professional firms*:

- **Corporate experience and expertise:** management that have the necessary experience and expertise to ensure that the business model is sustainable and to implement the model effectively.
- **Corporate systems and controls:** including corporate governance that exert appropriate levels of control over the running of the business including risk management, maintaining adequate capital, record keeping, training and competency programmes and developing a culture that encourages the fair treatment of customers.
- **Employee professional support:** encouragement of professional standards for employees through supporting technical training and development and encouraging appropriate behaviour.

History and the Royal Charter

The basic standards of professionalism have existed in Britain since the Victorian period. Many of the social clubs and guilds of that time evolved to the institutions of today through a process of gradual establishment and by entering into special relationship with the state, creating a professional ‘monopoly’ of practice in the relevant area of expertise.⁴ These days have long gone. But the twenty-first century profession will naturally build on these traditional characteristics, refining and evolving new standards to meet the needs of today’s marketplace and renewed public expectations.

Many British professions have, at their core, a Royal Charter which sets out a formal duty to the public interest. The CII was granted a Royal Charter in 1912. Charters are rarely granted by the Privy Council, and the consensus holds that the Royal Charter signifies a ‘gold standard’ in the industry, seen as the best sign of consumer protection available. Unlike trade unions or trade bodies, which represent the interests of their members, Chartered bodies are bound to protect the interest of the public above the (short term) interests of their members.

⁴ Jennings, Bruce and Daniel Callahan and Susan M. Wolf. 1987. ‘The Professions: Public Interest and Common Good.’ *The Hastings Centre Report*, Vol. 17(1): pp. 3–10.

Bodies applying for a Royal Charter must submit a convincing case to the Privy Council that it is in the public interest to provide Government regulation of the profession, with rigorous requirements as to the size and pre-eminence of the body, the qualifications of its members, its track record of achievement, and commitment to maintaining professional standards.⁵

While the basic characteristics of professionalism, and the Royal Charter that sets professions apart, have stood the test of time, they have not gone unchallenged.

Several professions have, in recent years, been accused of perpetuating elitism and insularity. We in financial services should learn from the challenges which the older professions have faced. In the financial services sector, there has been a growing consensus amongst industry practitioners, government, the regulator and consumer bodies that professionalism and standards need to be improved. Comparative analysis of developments in other professions suggests that our sector faces significant challenges to raising standards of professionalism.

Recognising and understanding these challenges, and the realities of today's commercial environment, is the first step in responding to them and adapting to remain not just relevant but a key element of British society.

⁵ 'Applying for a Royal Charter.' Privy Council. Available from: <http://privycouncil.independent.gov.uk/royal-charters/applying-for-a-royal-charter/>, Date accessed: 18 October 2011.

2. Professional Education: Blending the best of academic and vocational education⁶

- **Professional Education:** despite its long history, this form of education is often misunderstood by decision makers.
- **Constituent Parts:** professional education blends high academic standards with the rigour of the practical know-how of vocational learning.
- **Benefits:** individuals, firms and society as a whole can benefit a great deal as a result.

Business and consumers alike expect high standards from those they deal with in their day-to-day lives: high standards of knowledge, of ability and of conduct. Though many people do not realise it, professional education is a vital component of ensuring this. It provides individuals with all of these elements, bringing together practical application with academic rigour, wrapped up with expected behaviours.

Despite the importance of professional qualifications their value is often misunderstood. To redress this and to promote the role of the CII and the professions in general, our paper *Professional Education: Blending the best of Academic and Vocational Education*, explains the constituent elements of professional education, how it compares with vocational and academic education and its importance and relevance to our economy and society as a whole.

Professional education has a long tradition of blending academic rigour with practical application. In the main developed and provided by professional or Chartered bodies, professional education encompasses the spirit of education as both an economic and social driver, all within the setting of a particular profession. In that way it helps to provide a route of progression for the individual – from entry level to the pinnacle. This form of education also plays a part in enhancing and maintaining levels of trust: throughout history those invested with the highest levels of trust are those trained to a high standard and who follow ethical codes of conduct, such as doctors and lawyers. In the eyes of the CII, professional education consists of the following key elements:

- Professional education marries high academic standards with real life situations found in professional practice. Students learn both ‘what/why’ and the ‘how’ – bringing together knowledge and know-how.
- Professional qualifications begin by providing an individual with a general grounding in the sector subject matter. This is then developed through specialisation which provides a pathway of progression to particular roles.
- Professional education helps to develop ‘human capital’ and is a key component of a strong profession. It also helps create a professional culture which extends far beyond qualifications and promotes lifelong learning. Continuing Professional Development is the cornerstone of any profession, ensuring that knowledge is up-to-date protecting customers, consumers and the public.

⁶ To read the full version of *Professional Education: Blending the best of Academic and Vocational Education* visit: http://www.knowledge.cii.co.uk/system/files/PP9_Educational_Philosophy_FINAL_Version_o_o.pdf

- Durability is a key component. Academic education is traditionally seen as a life skill, whereas vocational is often considered to be more short term. Professional education unites the two through its promotion of continued learning. This durability is also highlighted in the professions ability to stand the test of successive governments' reforms.
- Professional education takes place within an organisational environment and so there is a heavy element of personal responsibility and self-discipline required – especially fitting in study with work. Conversely it is this personal commitment that often proves most valuable to employers.
- Professional education comes with a 'badge' of professional culture and inculcates a sense of worth and belonging in the student.
- Common standards across a sector are developed and upheld through professional education and the bodies responsible for it. Such standards provide employers, customers and the public with confidence in those qualifications that encompass them.
- Most professional qualifications are widely recognised, not just in the UK, but across the globe. They unlock doors to new employers and markets who attach great value to them. Portability is a great benefit of professional education, providing enhanced career mobility. Compare this to in-house training which has limited value outside of the employer providing it.

Benefits

The benefits that professional education and qualifications bring are many and varied, ranging from wage premiums to supporting social mobility. Broadly they can be split into three categories: employers, individuals and society.

We believe that in the current economic climate (where various ways to promote growth are being explored) and with a public crisis of confidence in many sectors, those in power, as well as firms and individuals, need to realise the benefits that professional education and qualifications can bring. The time has come for professional education. Combining high academic standards with more business appropriate, practical aspects ensures that, far from being antiquated and out of touch, professional education is more relevant than ever.

Conclusions

The professions and professional education play an important role within today's Britain and beyond – helping to provide employers with the skilled workforce they require, equipping individuals with the professional competence and the wherewithal to enjoy a fruitful career and protecting the public interest through the provision of standards that instil ethical behaviour.

Professional education is about much more than just qualifications. It goes much further by promoting a commitment to continuing professional development and the adherence to a code of ethics, underpinned by disciplinary consequences for those who do not. The CII's Royal Charter ensures that the public interest is at the heart of what we do as a professional body.

Professional education performs a dual role supporting economic development by providing the workforce with the skills it needs to succeed in a competitive global market and supporting society by creating a professional workforce that understands and undertakes ethical practices. In order to be successful in providing this, those

bodies responsible for developing qualifications and courses have to be in tune with what is required – in terms of regulatory requirements, industry needs, individual expectations and the public interest element. This is what professional bodies do, day in day out – without which our exams would cease to carry relevance.

3. Challenges for Professionalism

- **Declining Trust:** the time of blind deference to ‘the expert’ has declined as a result of social changes including consumerist values, the Internet revolution, and heightened media scrutiny.
- **The Regulatory Ratchet:** regulatory oversight is likely to continue to ramp up following the recent financial crisis.
- **How to Respond?:** now is the time for professions to reassess their role, approach and position and reinforce professionalism.

Professions often shape ways of thinking about problems in their domain.⁷ The insurance industry, for example, has long prided itself on taking a lead on social matters. The UK industry was instrumental in developing the fire marks system in London (which later spread throughout Europe), and led to the establishment of organised fire services. More recently, the industry lobbied hard for better funding of flood defences to reduce that risk on property insurance.

Yet the professions’ role in society does not go unquestioned. Some would even say that the traditional model of professionalism is under threat of extinction.

The professions have come under attack from two fronts: from the general public, who has come to view professionals suspiciously in an era of declining trust, increased consumerism and the ready availability of vast amounts of information; and from the State, which has engineered a steady ‘regulatory ratchet’ of oversight, shifting power away from professions to govern themselves independently.

Declining Trust

The very knowledge and technical expertise characteristic of high quality professionals places them in a position of vulnerability in an age of democratisation of information. In a world of Google, Wikipedia and Twitter, the instant and easily accessible is eagerly sought.

Professional services are characteristically different from goods that are sold by a manufacturer, merchant or retailer. The intangible ‘goods’ a professional provides must be taken on trust. The professions have gained power in numbers and societal importance with the transition from an industrial to a knowledge society. However, at the same time they are criticised now more than ever before as, what George Bernard Shaw originally dubbed, ‘conspiracies against the laity.’ It has become ever more popular to question the motives, ethics and values of our expert class.

The time of blind deference to ‘the expert’ is gone. Poll after poll has shown declining trust in most professions (the medical profession being a significant exception). For example, trends from the Ipsos MORI ‘Opinion of Professions’ survey index chart a slow but sure fall in the percentage of people who are very or fairly satisfied with the way that many established professions do their jobs.⁸

⁷ Dingwall, R., and Lewis, P. (eds.). 1983. *The Sociology of the Professions: Doctors, Lawyers and Others*. London: Macmillan.

⁸ ‘Doctors once again the most trusted profession.’ Ipsos MORI Veracity Index. Updated June 2011.

The Internet revolution threatens the information asymmetry that has always been at the heart of the relationship between professionals and clients.

Doctors face patients who must be convinced of their diagnosis because WebMD.com may offer a plausible alternative opinion. This has the effect of changing the traditional doctor-patient relationship in many cases. A similar story can be told for the legal and accounting professions, for example with many simple forms and instructions now available online.

Media focus on scandals and malpractice – the corruption of corporate executives from Enron and WorldCom, the horrible revelation of the Shipman murders – has also damaged the public’s trust in professions, and, rightly, forced many to be more transparent and publicly accountable.

More recently the world of financial services has seen scandals in two professions often associated with the financial world – the accountancy and actuarial professions and more recently a general assault on the professional conduct of the banking sector.

The Regulatory Ratchet

The balance between regulation and representation is crucial to professional identity. The traditional view holds that were it not for the self-regulatory role of professional bodies, which forces them to set high standards and a degree of disinterestedness (thinking of the public interest above their members), a profession would be no different than a trade union.

Increasing regulation is the second major challenge facing UK professions, which traditionally have prided themselves on autonomy. The professions have seen a steady ‘regulatory ratchet’ encroach upon their traditional independence. Just as trade unions came under fire in the 1980s, professional monopolies were attacked as counter to the logic of the free market.

The financial crisis has challenged this thinking. The global financial crisis the world found itself mired in from 2008 suggested to some commentators that the regulatory state was not working – at least not in the banking sector. Radical reform to UK financial services regulation is underway, some of which, like the part-nationalisation of the banks, we have already seen.

Even in states where the banking crisis has less impact, like Australia, are undertaking reforms to financial advice regulation, including reviewing their professional standards.

4. Professionalism in Other Sectors

- **Accountancy:** Enron and Worldcom led to a Government review and the creation of an independent regulator, the FRC, with broad support from accounting bodies.
- **Law:** the legal professions responded pro-actively before regulatory changes from the Clementi review were imposed.
- **Architecture:** the profession has made a number of changes in recent years to raise standards and increase value for the customer.

The retail financial services industry is not alone in facing challenges or in trying to respond by improving the way the profession is governed. The traditional professions – medicine, accountancy, architecture, and the actuarial and legal professions – have all needed to address and improve standards as they have come under ever-increasing public scrutiny in recent years.

Common issues have been experienced by the professions, and many have been through a period of external examination that has led them to improve their governance, controls, standards and sanctions or having them imposed on them through public pressure.

Accountancy

In recent years the world of accountancy has been rocked by the malpractices found to take place in the provision of services to Enron and Worldcom with concerns raised over independence and objectivity. This has led to a focus on the need for better governance and more effective quality controls. In the past accountancy standards were set by the profession itself.

In 2002 a Government review examined the way the accountancy and audit professions were regulated and considered whether any changes should be made. The review concluded that the Financial Reporting Council (FRC) should take on the functions of the Accountancy Foundation to create an independent regulator with three areas of responsibility:

- the setting of accounting and audit standards
- their monitoring and enforcement
- the oversight of the self-regulatory activities of the major professional accountancy bodies. Their span of control includes accountancy bodies such as the Institute of Chartered Accountants in England and Wales (ICAEW), Chartered Institute of Management Accountants (CIMA), and Association of Chartered Certified Accountants (ACCA).

Essential to the arrangements was the broad support for the independent regulator through the breadth of representation on the FRC. The support helped provide a degree of legitimacy and credibility to the whole structure.

In addition to UK changes, global standards are becoming more important. The International Accounting Standards Board formed in 2001 and published its first set of standards in 2003. A process of national convergence with these standards has been underway since then. The International Federation of Accountants

is the global organisation for the accountancy profession and has set out a code of conduct as well as technical standards.

Law

The legal professions have been under increased scrutiny since the Thatcher governments, with enquiries coming to a head in a government-sponsored independent review in 2004. The review, led by Sir David Clementi, considered what regulatory framework would best promote competition, innovation and the public and consumer interest in legal services.

The Clementi review concluded that the legal professions' regulatory systems were flawed as a result of: the governance structures of the main front-line bodies being inappropriate for the regulatory task they faced; the over-complex and inconsistent system of oversight regulatory arrangements for existing front-line regulatory bodies; there being no clear objectives and principles which underlie this regulatory system; and the system not having sufficient regard to consumers.

The main recommendations of the report were accepted by the government and set out in the Legal Services Act 2007. The Legal Services Act (LSA) provides for a single external oversight regulator in legal services called the Legal Services Board (LSB) to provide consistent regulation of professional bodies such as the Law Society and the Bar Council.

In response to the Clementi review, and in anticipation of the changes required, both the Law Society and the Bar Council ring-fenced their regulatory and representative functions. In 2006, the Bar Council separated its regulatory function with the creation of the Bar Standards Board (BSB). The Law Society also separated its regulatory function, establishing the independent Solicitors Regulation Authority (SRA) in January 2007.

Architecture

Finally, the architecture profession has made a number of changes in recent years to raise standards.

The 1998 Egan Report highlighted concern that the industry as a whole was under-achieving with low profitability, little investment and too many dissatisfied clients. The Report specified new targets for the profession such as lower costs, quicker project times and better quality. To do this, it was recommended that processes should be explicit and transparent to the industry and its clients. Sustained improvement should then be delivered through use of techniques for eliminating waste and increasing value for the customer.

In 2005 RIBA commissioned a strategic study of the future of the architectural profession. Recommended improvements included:

- develop a stronger research culture
- improve market and business centered training
- strengthen influence on stakeholders
- break down barriers with other institutions
- develop greater predictability in the outputs of the profession
- build transparency into the profession by developing a clearer stratification of members' capability and experience.

A recent development has been the creation of The RIBA Chartered Practice scheme that is a response to increased public and government pressure for consumer protection, client demands for a recognised system for selecting accredited architectural practices, and architects themselves seeking more robust promotion from the RIBA.

Like these professional bodies (just some of the many which have been evolving to meet the needs of the twenty-first century), the CII has been hard at work developing a new professional framework in recent years.

How to respond?

There is still a strong public demand for the sort of services provided by professionals – it is just that the public expectations are rightly high and getting higher. The financial crisis and ongoing economic troubles puts additional pressure on the dual challenges of keeping the public’s trust and negotiating the regulatory ratchet.

To come through this tempest stronger than ever, professions must reinforce their commitment to professionalism. Professionalism and the professions have to evolve to respond to these challenges and the realities of the commercial and political environment of the twenty-first century.

Many of the traditional, long established professions are re-assessing their role, their approach and their position. In recent years some professions have had this re-assessment thrust upon them. Some professional bodies, including the CII, have already begun this process with considerable success. But we acknowledge that this process is a journey that we are undertaking, and we may have a long road ahead to achieve the public trust and confidence that compares well with the best of the other professions. Now is the time to learn from what has been done well in other parts of the professional world, share our own experiences, and continue to evolve to demonstrate the positive social value of professionalism.

5. The Changing Political Context for Professionalism

- **Strong Regulation:** an end to tick box regulation and a move to targeted inspections.
- **Professional Standards:** the Coalition Government recognises the importance of professional standards.
- **Emphasis on skills:** the Government's approach to skills recognises the important role played by professional bodies.

The debate around professionalism in the UK and in particular its evolution has been affected by recent changes in the political context for professional standards. This change may have a profound impact on the way the interface between government and non-governmental bodies like professional or chartered bodies operate.

The creation of a Coalition Government in May 2010 following the UK General Election has created a new impetus and challenge – at least in theory – to the trend towards stronger regulatory control over many areas of public policy. The Coalition Agreement published in Summer 2010 set out the Coalition's clear intent to:

'end the culture of tick-box regulation and instead target inspections on high-risk organisations through co-regulation and improving professional standards'⁹.

We welcome this recognition of professional standards as part of the architecture of oversight of regulation and supervision of professional life. We recognise this will vary from sector to sector and will reflect the different traditions and developments of professions and sectors alike but we believe it is a welcome recognition that professional standards will often be the best mechanism to use. That said, the current focus on increased regulation for financial services as a result of the banking crisis means that in this sector the broader trend towards co-regulation is facing severe headwinds.

New Emphasis on Skills

Inextricably linked to professional standards is the skills agenda. Shortly after the new Government was formed the CII set out its views on the need to re-assess the UK's approach to skills – particularly through the challenging times of recession and recovery. We published *Investing in Tomorrow's Skills Today: The CII Prospectus for Skills* which set out seven key themes:

- Simplification of the skills system
- The need for a stable policy framework
- Developing a consensus on long term skills goals
- Better recognition by government on the importance and value of professional bodies
- Government to ensure the basics of education (literacy and numeracy) are improved prior to entering the workforce
- Improved careers advice system
- Strengthened focus on lifelong learning for all employees, not just new recruits.

⁹ CII source material

We were pleased that the Government's Skills White Paper (*Skills for Sustainable Growth*¹⁰), published in autumn 2010 reflected many of our themes, and in particular, the recognition of the role of professional bodies in the skills space. The Government's new approach was consolidated by the **Wolf report into 14–19 vocational education**¹¹ which put a renewed emphasis on the importance of vocational education and the need for young people to attain basic literacy and numeracy skills.

We believe this shows the growing importance of a practical approach, and what we term more specifically 'professional education' as outlined earlier (chapter 2). Taken with the huge changes taking place in higher and further education following the changes to student funding and further long-term changes outlined in the recent **Higher Education White Paper** (*Students at the Heart of the System*)¹², it is clear that the role of professional education in providing pathways into and within work will grow in importance.

Interestingly, although the UK trend is towards a more considered approach to regulation and commitment to better regulation generally, in the sectors where we operate, insurance and financial services, this trend is less clear. The political momentum is behind a strong move towards more intrusive and intensive regulation with the abolition of the Financial Services Authority and the creation of two new regulators (the Prudential Regulatory Authority & Financial Conduct Authority see chapter 3).

We believe that there is space even within this more intrusive and pre-emptive regulatory style for individual and firms' professional standards to be recognised and acknowledged as part of the new regulatory emphasis on improving the culture within firms and higher professional behaviour by individuals.

¹⁰ <http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/s/10-1274-skills-for-sustainable-growth-strategy.pdf> Date accessed: 18 October 2011.

¹¹ <https://www.education.gov.uk/publications/eOrderingDownload/The%20Wolf%20Report.pdf> Date accessed: 18 October 2011.

¹² <http://www.bis.gov.uk/assets/biscore/higher-education/docs/h/11-944-higher-education-students-at-heart-of-system.pdf> Date accessed: 18 October 2011.

6. The UK's Changing Approach to Financial Regulation¹³

- **Landscape:** Fundamental change will see the abolition of the FSA and the creation of the Prudential Regulatory Authority & Financial Conduct Authority.
- **Regulating Culture:** The FSA has suggested that a firm's culture could be taken into account in revised supervisory activities.
- **Rewarding Commitment:** The CII believes that those firms who commit to adhering to high professional standards should be recognised by regulators in some way.

The tide of regulatory change is gathering momentum. By 2012 two new regulatory bodies will have emerged to take the place of the FSA – with the Bank of England firmly at the helm. As well as managing this structural change, the Government, FSA and Bank are also looking at how firms and individuals should be supervised by the new regulatory bodies.

The culture of firms is an important if often neglected driver of behaviours and arguably a significant determinant of both the recent financial crisis and mis-selling scandals. In response, the FSA has proposed that understanding firms' cultures will become a more prominent part of supervisory activities under the new conduct of business regulator (The Financial Conduct Authority – FCA):

'The FCA will look to firms governing bodies to set, embed and maintain firm-wide culture that supports choice and an appropriate degree of protection for consumers¹⁴.'

It is our view that firms adhering to the highest standards of professionalism demonstrate a dedicated commitment to delivering the most suitable products and advice for consumers – thereby meeting the new cultural element. It follows that those firms that adhere to high professional standards are less likely to cause public harm than those that do not and should therefore face less regulatory scrutiny under the new regime. This new approach to supervision would deliver a number of public interest benefits including:

- An incentive for other firms to voluntarily adopt higher standards of behaviour which, research suggests, could lead to a significant improvement in outcomes for consumers.
- In turn, an increase in professionalism could help win back public trust for financial services which is a necessary condition to reducing the savings and protection gap by facilitating an improvement in levels of engagement.
- The public interest will be served by pro-actively incentivising good culture through rewards rather than a regulatory regime which only reacts once consumer detriment has occurred.

A number of firms have already made measurable commitments to best practice through the **Aldermanbury Declaration** and **Chartered Firm** status. Firms that comply with these initiatives have successfully evidenced the highest standards of professional behaviour. Indeed part of the criteria for a firm to become Chartered is demonstrating that it has put in place **ethically sound core values** and **business practices**.

¹³ To read the full CII's paper *A New Approach to Financial Regulation – Embedding Professionalism* visit:
http://www.knowledge.cii.co.uk/system/files/CII_PP8_Embedding_Professionalism_10Jun2011.pdf

¹⁴ CII source material

Whilst these initiatives are in their infancy, the sector has already made big strides forward. Over 230 firms have already signed up to the Declaration whilst there are already over 400 Chartered Firms across insurance and financial advice.

7. The CII's Professionalism Campaign

- **CII Governance Reform:** we have completed an extensive change to our governance procedures to ensure a modern professional approach is at the core of our decision-making.
- **The RDR Campaign:** the CII has been supporting members in a concentrated campaign to enhance professionalism in the retail financial services sector, and the FSA has taken our view on Board.
- **The Aldermanbury Declaration: Professionalism in General Insurance:** we believe general insurance practitioners have the opportunity to raise standards from within now rather than wait for regulatory imposition, and have launched an industry task force to lead the debate.

The CII has long advocated higher professional standards. A better standard in the industry is all the more important as financial services has taken such a battering both in business as well as in reputational terms. While the full force has concentrated on banking other parts of the sector have not been immune from both business and trust issues.

Impacts on the insurance industry have thus far been smaller – certainly on the general insurance side – compared to the huge effects seen in the banking sector. Still, financial services as a sector, including both general insurance and savings and pensions, is set to see big changes in the future. Even before the present credit crisis and economic stasis, years of mis-selling scandals have left public trust and confidence in the industry at an all time low level.

We believe that the CII has and will continue to argue the case for appropriate and proportionate professional standards in the public interest. As part of this we have been setting out practical roadmaps to ensure that our profession is able to change public perception. The CII is supporting members following an extensive reform of corporate governance and a concentrated professionalism campaign as part of regulatory change in the retail financial services sector. And in the last couple of years we have, with the support of an industry-led Task Force, developed an initiative known as the Aldermanbury Declaration to drive professional standards in the general insurance or non-life insurance sector.

CII Governance Reform

In 2007, we completed an extensive change to our governance procedures as a professional body, to ensure that there is a more modern, business-like approach to decision-making and corporate governance at the heart of our profession.

A Board of 13 people replaced the previous large Member Council as the governing Body of the CII with a Representative Council to fully represent members' views. The new Board acts in the way of a Board of Directors in a limited company.

We also have an independently chaired Professionalism Standards Board which oversees policy and standards for CII members including professional conduct and trust issues. This includes representation from a number of public interest groups including consumers. This is supported by an extensive system of discipline supported by an independently chaired disciplinary process. The Professional Standards Board recently oversaw a revision to our Code of Ethics and a renewed emphasis on both the Code, and support and resources for members to understand ethical issues in a more practical way.

These changes, which followed a wide ranging consultation process, enable the CII to meet best practice standards and pave the way for much quicker and more efficient decision-making. On the Awarding Body front our process and procedures are now fully overseen by Ofqual.

The RDR Campaign – improving financial advice standards

The Financial Services Authority (FSA) published its Retail Distribution Review (RDR) discussion paper in June 2007 in response to ‘perceived problems’ in the market for the distribution of retail investment products.¹⁵ The review involves the regulator, industry and consumer representatives working together to identify and overcome market inefficiencies in a manner attractive to both consumers and firms.

The CII believes that this review provided an opportunity to develop solutions that enhance professionalism within the sector and improve its standing in the public’s hearts and minds. While we do not believe professionalism is the whole solution, we do believe that it is a vital ingredient in the change process required.

Throughout the RDR process, which has been understandably contentious with some of the profession, we have endeavoured to ensure that a ‘step-change’ in professionalism was at the heart of the FSA’s thinking. The step-change would be effective if it created an improvement in the public confidence and use of financial advice by consumers. The CII seeks to bring about a collaborative ‘step-change’ in the quality of financial advice and planning in the UK:

- we published several position papers in 2007 setting out a ‘package of professionalism’, developing measures to bring about such a step-change.
- we quickly discovered that we were not alone in our views, so we worked together with other professional bodies (in developing a joint statement of principles known as *the Edinburgh Declaration*) which sent a clear signal of resolve and progress to the FSA.
- we progressed this work by participating in the FSA Professionalism Working Group which set out a clear blueprint for improved standards (and which was largely adopted in the FSA’s November 2008 RDR Feedback Statement).
- throughout this process, we undertook surveys of our members via the Personal Finance Society and CII Life & Pensions Faculty. Each confirmed that the vast majority were supportive of our goals, and supported the proposals that were being developed despite the change and challenges this involved.
- since the development of concrete proposals to qualifications levels and the introduction of an accredited body process for oversight of the new professional standards of qualifications, CPD and codes of ethics, we have worked hard to support members in readiness for the December 2012 deadline. To ensure we were ready to support this transition we worked to become an Accredited Body and were approved as one in September 2011. We continue to work with the FSA and the rest of the industry to advance these objectives through the RDR process.

¹⁵ FSA DP07/1 – Retail Distribution Review. A response by the Chartered Insurance Institute and the Personal Finance Society. December 2007. Available from: http://www.knowledge.cii.co.uk/system/files/CII%20Response%20to%20RDR%20DP07-1%2010%20Dec%202007_o.pdf. Date accessed: 18 October 2011.

Professionalism in General Insurance – The Aldermanbury Declaration

Our campaign on professionalism is not limited to the retail investment sector. General insurance is different in many ways from the issues and structure of the markets impacted by the RDR. Yet in discussions across the profession there was a strong view that more needs to be done to raise standards of professionalism in the general insurance market. It is important that the profession takes the initiative on this where a consensus exists on professional standards. It is clearly preferable for us to establish a bulwark against inappropriate regulation spilling over from other areas as a consequence of the banking crisis.

The Aldermanbury Declaration is a practical framework for embedding professionalism in general insurance. This initiative was developed by a Task Force representing the diverse general insurance market, including major global insurers and national, regional and local brokers, and facilitated and supported by the Chartered Insurance Institute (CII) as the professional body charged with delivering many of its provisions. The resulting Declaration offers a response to the challenges facing general insurance, and foresees that renewing the focus on professionalism will bring a number of benefits, both for those working within insurance and for society:

- Better outcomes for customers
- Improved standards of risk management
- A more confident, trusted profession
- More talented people attracted to a career in insurance
- Increasingly rewarding careers for those within insurance
- Reinforcing the reputation of the London wholesale market.

Given the diversity of the insurance sector, the Declaration sets out broad principles, and invites insurers to consider how they should be applied to their businesses.

Creating the insurance profession

Launched in March 2010, the Aldermanbury Declaration contains provisions underpinned by CII qualifications and covers standards, training and measurable professional capability. The schematic below shows the requirements for brokers seeking to comply with it, along with which qualifications should be held at different levels of seniority within the company. Around this are stipulations about standards, training and measurable professional capability.

Through these principles, the Aldermanbury Declaration has great potential to improve market growth, nurture staff, and address the long-term health of the broking sector: millions of consumers and businesses seeking to address their insurance needs stand to benefit from a trusted, professional broking industry, and brokers themselves will benefit from improved professional development, and being encouraged to fulfil their potential.

According to *Post Magazine*, 94% of insurance sector respondents have welcomed the Declaration, and, assisted by the CII, firms of all types and sizes have already confirmed their support for it, and their intention to meet its standards. As of Autumn 2011 (eighteen months after its launch), over 230 insurance firms had signed up to these principles and more are doing so. The signatory list includes most major insurers and brokers, as well as a large number of smaller organisations and trade associations.

8. The Way Forward

- **Raising Standards and Building Trust:** our mission is to transform the CII into a ‘modern professional body capable of engendering trust and building the professional reputation of our sector’.
- **Making the case for professional education:** continuing to argue the case for professional education – which is making traction – as a distinctive and valuable if unheralded part of skills development.
- **Embedding continuing education into the DNA of professionalism.**
- **Focus on Behaviour as well as Knowledge:** continuing to promote and embed ethical behaviour and ensure the current regulatory changes properly embrace and acknowledge professionalism and ethical behaviours in assessment of individuals and firms.
- **Promotion of chartered titles as a kitemark of public trust.**
- **Developing talent to help create the next generation of professionals.**
- **Future Papers in Professionalism:** subsequent papers in this series will address further issues relevant to developing professionalism and publicly debate the key issues relevant to our profession.

Professionalism in a modern framework can provide an enhancement to public interest and to building public trust and confidence. This is particularly the case in financial services where consumer trust and confidence is now, due in no small part to the financial crisis, much lower than for other professions.

Professions can no longer operate under ‘gentlemen’s agreements’ nor can they afford not to be seen to be introducing objective and independent means of regulating, monitoring and enforcing behaviour.

Those basic characteristics that have defined professionalism for many centuries must now be revisited, modernised and strengthened with these standards in mind.

Raising Standards and Building Trust

Our mission is transforming the CII into a 21st century professional body, embodying the best characteristics of modern professional standards. To this end we are driving forward a long-term programme of development which involves an expanded capacity for professional standards, such as CPD and ethics, thought leadership through engagement with a public policy audience, research and policy development, in co-operation with our Professional Standards Board (PSB).

This is both a challenge to our members to raise standards across the profession as well as to ourselves to build a professional body that can support and deliver this goal.

Trust is engendered in a profession through the behaviour of its individual members and the actions of the professional bodies or independent regulators in setting, monitoring and disciplining against standards of technical and ethical behaviour.

High standards of qualification and on-going training play a critical part in maintaining the image and reputation of professionals. Qualifications are only part of the story; standards of behaviour, through membership of a professional body which commits members to a robust code of ethics and formalised, rigorous continuous personal development (CPD), are also integral to raising standards.

This paper sets out the broad ambition of developing professionalism in a modern context to demonstrate the public interest in promoting professional standards across our sector.

It covers some of the themes which are shaping this ambition: regulatory changes which point towards an increased emphasis on personal conduct and corporate behaviour, a growing and welcome recognition of the importance of professional education in the development of skills; the further skills challenge of attracting and keeping the next generation of talent into the sector; the growth of chartered titles for both individuals and firms as a mechanism to drive up standards as well as the increased acknowledgement of CPD as part of the mix.

We will continue to develop this series of papers as part of the debate to develop professionalism for the 21st century and as we celebrate the centenary of the granting of our Royal Charter in 1911.

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Previous CII Papers in Professionalism

As part of our long term drive to promote greater levels of professionalism and ethical behaviour in insurance and financial services, we have been publishing a series of papers looking at the way forward for a modern and progressive profession. The series explores, in depth, various issues around raising standards and building trust in our sector. Individual topics include continuing professional development and ethical behaviour. All are available free on the CII website: www.cii.co.uk/papersinprofessionalism

1: Twenty-First Century Professionalism: In the first of this series, [Twenty-First Century Professionalism](#), we give an overview of what professionalism means, how the professions have evolved, key challenges, and our vision for the future of professionalism. The paper identifies the key characteristics of the 'new wave' of professions, focusing outwards towards the public not just inwards to the profession itself.

2: Getting Professional about Ethics: In Spring 2008 we undertook a review of our approach to professional ethics as a part of its wider work on the concept of new wave professionalism. We commissioned an independent review of all aspects of our ethical approach and processes. The review considered how to develop professional ethics across the industry and examines the full range of tools available to the CII to assist in this process, including training and education, member communications, structures, CPD and enforcement. [Getting professional about ethics](#) is a summary of the report.

3: The New Benchmark for Financial Advice: This paper puts forward a suggested structure for the new Retail Distribution Review (RDR) benchmark qualification (QCF level 4) proposed by the FSA in November 2008. The paper, [The New Benchmark: A Model Advice Qualification Post-RDR at QCF Level 4](#), sets out a proposed model for the profession for debate, including a recommendation of standard study time and degree of difficulty that should be applied by all qualification providers.

4: Beyond Box Ticking: CPD and the 21st Century Professional: This looks at the role of Continuing Professional Development (CPD) in building and maintaining a high level of professionalism. In the past, CPD has been seen by some to be a matter of routine compliance – just another box to tick. Ongoing learning can and must go beyond box-ticking, and be part of a package of standards of knowledge and behaviour. [Beyond Box-Ticking](#) seeks to encourage a practical and constructive debate amongst members and other industry stakeholders, as well as those in other professions who are having a similar discussion.

5: The Stamp of Quality? The importance of Being Chartered: [The Stamp of Quality?](#), presents consumer and member research on the value of the Chartered brand. The key findings suggest that the public know and trust the Chartered mark more than any other professional designation. At a time when trust is a rare commodity, this makes Chartered more important and relevant than ever.

6: Building Trust Through Independent Standards: Our View on an Independent Professional Standards Board. This paper sets out our proposals for a Professional Standards Board which had been under consideration as part of the FSA's Retail Distribution Review. [Click here](#)

7: Everybody Wins: Pro Bono as a Hallmark of the Professional: Pro bono work undertaken in support of the community is becoming increasingly popular for many professions. This paper entitled [Everybody Wins: Pro Bono as a Hallmark of the Professional](#) argues that "giving something back" to society through either in-kind gratis work for the public or volunteering in support of a worthy cause is as much a part of professionalism as passing exams, attaining qualifications or doing CPD.

8: A New Approach to Financial Regulation: Embedding Professional standards in regulatory culture: Ahead of the government's draft legislation reforming the UK's financial regulatory landscape we set out the need for the proposals to address cultural issues, such as ethical behavior, and not simply a concentration on structural detail. [Click here](#)

9: Professional education: Blending the best of academic and vocational: The paper argues the case for the distinctive and often unheralded system of professional education delivered by professional bodies in many sectors and why this is particularly appropriate in the present economic and educational climate. [Click here](#)



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