

AF6

Advanced Diploma in Financial Planning

Unit AF6 – Senior management and supervision

Specimen Examination Guide

SPECIAL NOTICES

Candidates entered for the October 2012 examination should study this specimen examination guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

AF6 – Senior management and supervision

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Specimen Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the Examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the examination it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under examination conditions.

Before the examination

Read the Advanced Diploma in Financial Planning information for candidates and important notes for candidates

Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current Advanced Diploma in Financial Planning Information for Candidates and important notes for candidates, which is *essential reading* for all candidates. It is available online at www.cii.co.uk or from Customer Service.

Study the syllabus carefully

It is crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk or from Customer Service. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone*, so it is vital that you are familiar with it.

Read widely

If you do not have broad experience in financial services, *it is quite unrealistic to expect that the study of a single textbook will be sufficient to meet all your requirements*. While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Specimen Examination Guide

The best way to understand what the examiners require is to study this Specimen Examination Guide. From 2013 you will be able to purchase copies of Examination Guides online at www.cii.co.uk. CII members can download free copies of past Examination Guides online at www.cii.co.uk/knowledge. This specimen guide can be treated as a 'mock' examination paper, attempting them under examination conditions as far as possible and then comparing your answers to the model ones.

Note the assumed knowledge

For the Advanced Diploma in Financial Planning, candidates are assumed to have already the knowledge gained from studying the relevant units of the Diploma in Financial Planning or the equivalent.

Understand the nature of assessment

Assessment is by means of a three-hour written paper. This Specimen Examination Guide contains a full specimen examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that there are alternative answers to some question parts which would also gain high marks*. For the sake of clarity and brevity not all of these alternative answers are shown.

Familiarise yourself with case studies

Each case study used in this specimen examination guide has been specially written by practitioners with relevant technical knowledge and experience. It is then put through a rigorous editing procedure by a panel of active practitioners to ensure that the case study is both technically and structurally correct.

Know the structure of the examination

The paper is made up of two sections:

Section A consists of *one compulsory* question in the form of case study. This question requires you to apply and evaluate material relevant to learning objectives 1 and 2.

Section B consists of *two compulsory* structured questions. These questions require you to evaluate material relevant to learning outcomes 3 and 4.

The paper will carry a total of 160 marks. Section A will carry 80 marks and Section B 80 marks. Each question clearly shows the maximum marks which can be earned.

In the examination

Assuming you have prepared adequately, you will only do justice to yourself in the examination if you follow two crucial common sense rules:

- 1. Spend your time in accordance with the allocation of marks as indicated on the paper.** The maximum marks allocated to each question and its constituent parts are given on the paper; the number of marks allocated is the best indication of how much time you should spend on each question. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- 2. Take great care to answer the precise question set.** The model answers provided in this Specimen Examination Guide are quite focused and precise; alternative answers will only be acceptable if they still answer the question. *However brilliantly a candidate writes on a particular topic, if it does not provide a satisfactory answer to the precise question as set, the candidate will not achieve the marks allocated.* Many candidates leave the examination room confident that they have written a 'good' paper, only to be mystified when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.

Order of tackling questions

Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which are felt to be very challenging until the more familiar questions have been attempted.

Answering different question parts

Always read all parts of a question before starting to answer it, otherwise, you may find that after answering part (a), the answer you have given is really more appropriate to part (b) and it would be necessary to duplicate much of what has already been written. The examiners will normally only give credit for an answer if it is contained within its correct question part.

Handwriting

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. *It is strongly recommended that candidates do not write in block capitals*, because they will be slowed down so much by doing so.

Calculators

If you bring a calculator into the examination room, it must be a silent battery or solar-powered **non-programmable** calculator. The use of electronic equipment capable of being programmed to hold alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. *It is important to show all the steps of your calculation in your answer.* The examination is testing your ability to carry out all the appropriate steps in calculating a value. A proficient mathematician is someone who follows the correct method, i.e. carries out the appropriate steps. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Achieving maximum marks

In your answer, you should consider the way that the examination paper will be marked. For this examination, we are marking candidates in accordance with the following marking grid:

<ul style="list-style-type: none"> Your knowledge and understanding of the subject area, including the accuracy and completeness of your facts. This has a mark weighting of 40%
<ul style="list-style-type: none"> The way that you analysed or examined the subject area. This has a mark weighting of 40%
<ul style="list-style-type: none"> The way that you structured your answer – Is the information arranged logically? Is your reasoning sound? This has a mark weighting of 10%
<ul style="list-style-type: none"> Evidence that you have used relevant industry examples and/or undertaken further reading to support your answer. This has a mark weighting of 10%

In view of the above, it may be best to first approach answering the questions relating to knowledge areas that you feel comfortable with and then to go on to attempt those questions relating to knowledge areas that you feel less comfortable with.

Your argument should be clearly stated and your reasoning should be logical and sound. Remember that the examiner is only able to understand your thought process based on the information that you include in your answer. The test is, therefore, that if someone else reads this answer they will be able to understand what you are trying to say. Use sub-headings and bullet points where necessary to clarify your answer and to logically group your information. Remember though that bullet points alone may be insufficient as the reader may not be able to follow your thought process.

Keep referring back to the question to keep focussed and when you have completed your answer, check that your answer addresses the question.

After the examination

All examiners who mark Advanced Diploma in Financial Planning answer books are either active practitioners in the financial services industry or are experts on the subject. They have been specially trained to mark papers using the marking criteria above.

After each examiner has provisionally marked a small number of answer books, there is a co-ordination meeting of all the examiners at which the Senior Examiner goes through the marking scheme with the other examiners. Based on the feedback from the initial marking, the detailed marking scheme is finalised.

The marking of each examiner is closely monitored by a Senior Examiner during the marking period and sampling of marked answer books is carried out.

After all the answer books have been marked, a moderation meeting is held, at which all available statistical information is considered, together with the views of the Senior Examiner and other assessment experts. At the meeting a pass mark is set which should ensure that the standard of knowledge and skills required to pass the paper is comparable with that of previous papers. All candidates at or above the agreed pass mark will pass: the CII does not operate a quota system whereby only a fixed percentage of candidates can pass a paper.

THE CHARTERED INSURANCE INSTITUTE



AF6

Advanced Diploma in Financial Planning

Unit AF6 – Senior management and supervision

SPECIAL NOTICES

Candidates are expected to be aware of the FSA rules and guidance regarding training and competence, conduct of business and complaints handling as contained within the relevant sourcebooks.

Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit AF6 – Senior management and supervision

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:
 - Section A: 80 marks
 - Section B: 80 marks
- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent battery or solar powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page and leave six lines blank after each question part.

SECTION A

This question is compulsory and carries 80 marks

Case study 1

You are the sales and marketing director for a large regional IFA firm with a head office and 6 regional office locations. You report directly to the Board, with direct responsibility for the investment advice including oversight of the customer advice process and internal supervision policy.

Your clients are mainly High Net Worth individuals seeking long term investment planning advice and solutions. A fully advised service is provided with no discretionary or execution only services offered. Investment management including research and analysis is outsourced.

The firm has a low and well managed risk profile achieved through well qualified and supervised advisers, a stable client bank, good client records, regular performance reviews and client reporting.

Your firm is now expanding by entering into an affinity arrangement to provide advice on a range of financial products directly to several hundred members of a trade union. Members will primarily be seen in their workplace or at their home, where advice will be provided through a two stage process.

To support this arrangement it is proposed to:

- recruit and train a sales team in the provision of this new service;
- appoint advisers on an employed basis but with a low basic salary and an open ended bonus based on volume and quality of sales;
- share a number of services with the existing IFA advice team i.e. research and product analysis, field compliance and Training & Competence, premises and back office administration.

Question 1

Draft a risk assessment paper to the Board which analyses the anticipated risk issues in providing the new advice service alongside the existing operation. Outline how the firm should seek to manage and control these risks and describe a suitable framework for supervision policy and practice.

(80)

SECTION B

**Both questions in this paper are compulsory
and carry an overall total of 80 marks**

Case study 2

You are a Senior Executive, with a major life and pensions provider company. Your current role is business partner to a wholly owned national IFA subsidiary company.

Recently a number of issues have materialised which indicate that there are gaps in competence at board level leading to less effective control of the advice and services provided by the IFA firm.

The issues are:

- some members of the Executive Board are relatively inexperienced in the regulator's expectations of them;
- some other members of the Executive Board are not fully aware of how their competence might be demonstrated.

Question 2

Draft a paper for the Executive Board recommending a range of good practices on these issues. The paper should address the specific competence requirements expected by the regulator.

(40)

Case study 3

You are a senior compliance manager for a national retail bank. The bank employs 300 financial advisers.

The general culture of the organisation can be described as compliance focused, process driven, centrally controlled, with incentives designed to promote achievement and maintenance of the minimum benchmark standards. Typical procedures involve 100% checking and sign off of recommendations, centrally produced 'suitability' letters, mandatory training and monthly knowledge tests for all advisers and regular observation of advisers by supervisors.

In the last few months, a new Head of Sales has been appointed who comes from a firm with a very different culture. Her style is to focus on customer excellence. As a result, she wants to introduce a culture which puts the needs of the customer first, recognises and rewards behaviours and promotes continuous improvement.

Question 3

Analyse how her leadership will promote and embed the new culture within the organisation.

(40)

NOTE ON MODEL ANSWERS

The model answers given are those which would achieve maximum marks. However, there are many alternative answers which would also gain high marks.

Model answer for Question 1

The main risks can be categorised as follows:

- The type and mix of products being advised/sold.
- The suitability of products and services for the particular customer base.
- Remuneration policy and sales culture promoted.
- People risk – for example, the relative experience of the advisers, usually evidenced by historic KPI and complaints data, spans of control, location of advisers/supervisors and access to support, skills, competence and experience of the advisers.
- Adequacy of infrastructure/resources – for example, sufficient sales process and controls, sufficient communication process, sufficient administrative resource.

Clearly, the new sales structure will significantly change the firm's customer profile, the needs they are likely to have, their general attitude towards risk, and the typical advice and solutions being provided. It is quite likely the new customer base will be less knowledgeable of financial matters and investment based solutions. Advising on new product types will increase potential for unsuitable advice.

Multiple advice and sales processes to manage and monitor will increase risk. The new process is transactional, lower value but higher volume, with low customer interaction pre-sale. Current advice process is relationship based, long term, high customer interaction, low volume and high value. Senior management and compliance resource will be responsible for both, creating potential conflicts and demand tensions.

Stretching existing resource, particularly in areas of compliance, T&C and back office admin, creates risk at any time but even more so when so many advisers are new to the firm. Legacy risk data is likely to be unavailable, and the risk management resources are now operating in a new and unfamiliar environment.

1. Impact on risk profile

The following factors will impact and potentially increase the risk profile of the firm:

- A different range of products being advised and sold to customers.
- Customer relationships are newer and more transactional.
- Customers are likely to have less experience and understanding of financial matters.
- Advising customers in a target driven culture.
- Managing a remuneration policy which will reward volume sales with potential to impact on suitability.
- Less experienced advisers joining the firm in significant numbers.
- Conflicting cultures promoted across each advisory team.

In essence, high volume transactional business is likely to lead to a different KPI profile – NTUs, persistency, complaints. In turn this could lead to a reputational risk for the firm and a corresponding impact on their existing High Net Worth business.

2. Controls to manage the risks

It is likely there will be a need for further/improved controls specific to the following areas

Suitability and quality – transactional advice must meet the same standards of quality and suitability. Monitoring and analysis of recommendations alongside client data, KYC files and pre and post sale documentation should be introduced. Assessment of advisers ability to consistently meet the standards would be undertaken relatively frequently, either in live observations or role play scenarios

Adviser competence – with advisers operating alone in the customers' workplace or home, the opportunity to check details with a colleague or supervisor is much more limited. Continued competence is critical and would be a key factor in supervision of the advice provided. Regular checking and assessing of competence would be a requirement, with 1:1 meetings likely to provide the opportunity for this to be addressed. The supervision may be mandated to include and record these 1:1 discussions.

Additional MI reports to be generated which inform senior management of performance against expected customer models, volumes and mix supplemented by customer observations and mystery shopping campaigns. This can help inform whether we are meeting the needs of the new customer base and suggest remedial action if necessary.

A revised adviser risk model to be implemented appropriate for the new advice service which provides indicators of changing risk experience and potential risk hot spots.

Cross-referrals – it is not stated whether there will be a requirement to refer customers to the independent investment advice team in situations where the transactional team do not offer the product or service appropriate for the customer. However, if this is the case, close monitoring would be necessary to ensure customers were being referred when appropriate, that the transactional team were not recommending solutions from their stable of products when there were better solutions available elsewhere, and, where referrals were being made, it was for the right reason and complied with the disclosure requirements determined by the firm.

3. Supervision

Supervisors will need skills to manage performance in a way that maintains quality standards when volumes need to increase. Monitoring of performance based KPIs will need to be enhanced, including trend analysis and sales mix. It is unlikely existing supervisors will have the skills to interpret this MI based on the existing model. Training and more direct supervision of first line supervisors is essential.

Geographical factors and spans of control will have an impact. How frequently will advisers be supervised live in the field, particularly as the advice provision is likely to move out of the office into the customer workplace or home. How easy will it be for a supervisor to observe advisers in practice and provide timely coaching interventions under the new model. There will likely be a need to improve and rely more on the monitoring of outputs to maintain the quality of advice expected.

It is also likely the numbers of customers being seen/advised will be significantly higher per adviser in the new, transactional model. Supervision policy will likely need to be changed as the frequency of customer activities increase. For example, the new adviser team are likely to be seeing many more customers in any given period than existing advisers. Frequency of sampling and live supervision of a customer recommendation would need to increase proportionately to remain valid and representative.

Proposed changes include:

- detailed customer profiling and defined advice parameters;
- agreement on new spans of control;
- more detailed adviser KPIs with a greater emphasis on monitoring of outputs and data analysis;
- performance management policy reviewed to reflect the different sales culture;
- more frequent observations of live customer interactions;
- new competence benchmarks for first line supervisors;
- increased frequency of MI production and reporting up the line;
- customer questionnaires/feedback.

Model answer for Question 2**The Regulatory Context**

As the firm is a limited company with an executive board, regulatory roles in scope would be all approved persons with either significant influence function (SIF) responsibilities or significant management function (SMF) responsibilities. These would be:

Governing Function – Chief Executive, Directors and Non-Executive Directors.

Allocated functions with significant responsibilities – compliance oversight function, systems and controls function, money laundering reporting function, CASS oversight function.

In addition, director(s) representing the parent entity company would also be included as it is clear they exercise significant influence and control over the firm.

Good practice – to review the range of KPI measures to ensure they are relevant and specific to the firm's strategy, business model and customers. This will ensure the business has a clear focus on the range of results required and the measures by which progress can be assessed.

Areas expected to feature within the KPI framework for Directors/SIF responsibilities would include:

- financial performance of the firm, including a long term view of financial measures;
- market performance;
- risk performance and management;
- performance against customer standards and measures, including TCF factors;
- employee competence, particularly operational performance of regulated functions;
- employee performance and satisfaction measures;
- performance against industry/peer group benchmarks.

The board has full responsibility for how the firm performs against these KPI measures and achieves its overall business plan.

Good practice – to define and document the roles and responsibilities for the executive and non-executive positions and the competencies necessary to carry out these roles. This will not only ensure there is robust selection criteria but also provide the basis for on-going performance review and development.

Appointments to the board should therefore be based on clear selection and appointment criteria, and an open and transparent process. A primary requirement is competence for the role and this should be fully assessed prior to any appointment decision being made.

For approved regulatory roles, the FSA has detailed the competencies it would expect for SIF appointments, and they are an essential starting point for the selection process. The competencies cover the business and market in which the firm operates, the regulatory context and requirements, the firm's own strategy and business model, the risks it will be exposed to and how to deal with them, financial management and control, and an ability to assess how well essential arrangements are working. Strong performance based on these competencies, both individually and collectively as a board, will be beneficial for the firm, its employees and, importantly, its customers. It will inspire confidence in the board and underpin the decisions it makes. Customers will benefit from being served by a well managed and well controlled business, which will further promote confidence and trust in the firm.

Good practice – assess and regularly review the board against the responsibilities and competence framework for the relevant roles to identify gaps which need to be addressed. This will confirm whether there are any competence issues and provide a focus for development. It is also important that these assessments are documented.

Typically a firm would assess competence prior to seeking FSA approval for appointment to regulated roles. It is essential any gaps in competence identified prior to appointment are well understood and remedial training is available to fill the gaps. On-going competence would need to be maintained so there would be a formal system of CPD for all SIF appointments, which would be monitored by the Board, usually with responsibility delegated to the HR Director/function.

Good practice – review performance, and emerging trends, against the range of KPI measures, and assess individual performance based on their specific areas of responsibility. This will bring any current performance issues into focus and enable the executive team to determine what actions, or changes to agreed practice, should be made to resolve the issues.

Clearly, any specific issues linked to the complaints data will need to be dealt with according to the agreed complaints procedures, fully documented and records maintained.

Performance assessment of senior executives is primarily undertaken through the performance target framework. This is based on the overall targets for the firm along with the range of KPIs relevant to the role/function undertaken. Performance targets are usually linked with and reviewed by the remuneration committee and there are clear measures applied to these targets. Individuals are assessed based on their relative contribution to the target achievement. Alongside this, further assessment of performance against individual responsibilities would utilise a range of methods, including:

- interview – similar to the initial appointment interview using a competency based format;
- performance appraisal;
- external/independent assessment and/or audit;
- analysis of feedback from team, customers, peers;
- feedback from the regulator relationship manager;
- review of Board performance and contribution, usually undertaken by the Chief Executive;
- knowledge based assessment, where relevant, along with CPD record.

Good practice – regularly obtain and analyse feedback on performance from customers, peers and direct reports. This will provide independent evidence of how directors, and the firm overall, are performing against the standards they promote for their business, and will often bring potential issues to the attention of the executive before they fully emerge.

Model answer for Question 3

Culture forms part of the FSA's assessment of risk at firm level. It is the responsibility of senior management, the firm's leadership team, to establish and promote the desired culture.

Accordingly, the Head of Sales, as a senior manager, should display leadership which:

- sets the tone and drives the behaviours of staff. Clear evidence of this would be the link between the quality and fairness of customer outcomes and the performance management and reward framework and policy;
- sets the direction for the business and identifies the priorities through a clear strategy and current business plan. Implementation of customer objectives and actions would not simply be delegated to others. The Head of Sales would take a strong lead in the implementation and delivery;
- implements controls and monitors progress to satisfy the senior management that the business is delivering the right, fair outcomes for its customers. This would include both the collection of appropriate MI and the qualitative analysis of this MI.

Strategic Considerations

Leadership – establish a strategy for the business which makes it clear what success means and how it is to be achieved, along with the business plan, customer objectives and performance measures to be implemented. The Head of Sales would be a role model of the new culture and customer behaviour, as well as providing an oversight role in the delivery by the business of fair outcomes for customers along with the more typical business measures of sales growth and profit etc.

Performance management – to promote and embed this culture, objectives related to the desired customer outcomes would form part of the performance management throughout the firm, including at leadership level.

Reward and Recognition - the policy should be seen to incentivise and reward right behaviours as well as hard performance measures. Senior manager incentive schemes clearly aligned to cultural objectives and improved client outcomes.

Training and development – importantly, there would be a clear commitment to performance development and improvement. This would be sponsored by the Head of Sales through a policy which requires performance reviews, PDPs and availability of training resources and solutions to meet identified needs including CPD. The Head of Sales would also be a role model in her personal commitment to learning and development. A training plan would be implemented to ensure essential new skills and competences were developed.

Recruitment and career progression – a recruitment policy would also align to the desired culture and expected behaviours. This would be made explicit within role profiles, job descriptions and internal promotion processes. It would also be clear in practice, with decisions to promote staff seen to recognise behaviours as well as sales performance.

Communications – Regular updates and communication would be provided by the Head of Sales. This would give both important information to the advisers and also ensure the Head acts as a role model in front of staff.

Supervision

The new culture requires supervisors with the skills to observe advisers in practice, assess their performance against clearly defined customer focused standards, identify where improvements can be made, and know how to affect that improvement.

To achieve this, supervisors in practice must now be able to:

- assess and analyse an individual's competence including skills and application of knowledge;
- improve customer outcomes and remove risk by coaching and developing performance;
- promote and influence behaviours through coaching and feedback.

In practice, the new model will require supervisors to perform a more 'hands-on' developmental and progressive approach, reinforced by monitoring of outputs and making informed judgements in respect of adviser risk. New role competencies will be required matched to the above. Spans of control are likely to be reduced, and core activities will change with a greater emphasis on field based support and observation.

Senior supervisors (second line) will also need to approach the assessment and development of the front line supervisors differently. A risk based model requires insight and analysis of performance data, an ability to determine where supervisor interventions are having the required impact and where they are not. It is likely much more variation will be experienced in practice and the skills to determine where this is positive or where it may create unacceptable risk are essential. Being able to coach and develop these skills and competencies will be a core requirement and will need to be included within their role profile and performance objectives.