2017 / 2018

FINANCE

The Parliamentary Review

A YEAR IN PERSPECTIVE

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The Rt Hon Theresa May MP

Liz Field

BROKERAGE, INVESTMENT & FUND MANAGEMENT REPRESENTATIVES

Franklin Templeton Investments

BGC's Sterling Treasury Division

Stifel

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Foreword

The Rt Hon Theresa May MP

Prime Minister

British politics provides ample material for analysis in the pages of The Parliamentary Review. For Her Majesty's Government, our task in the year ahead is clear: to achieve the best Brexit deal for Britain and to carry on our work to build a more prosperous and united country – one that truly works for everyone.

We have already made good progress towards our goal of leaving the EU, so that we take back control of our laws, money and borders, while negotiating a deep and special partnership with it after we have left that is good for jobs and security. The EU Withdrawal Act is now on the statute books to provide legal certainty at the point of exit. We have reached agreement on protecting the rights of EU citizens living here in the UK and British citizens living in the EU, on an implementation period to give businesses time to prepare, and on a fair financial settlement. We are now pressing ahead to reach an agreement with the EU on our future relationship that honours the result of the EU referendum and sets the UK on course for a prosperous future.

Getting the right Brexit deal is essential; but it will not be sufficient on its own to secure a more prosperous future for Britain. We also need to ensure that our economy is ready for what tomorrow will bring. Our Modern Industrial Strategy is our plan to do that. It means Government stepping up to secure the foundations of our productivity. It is all about taking action for the long-term that will pay dividends in the future.

That is why we have set an ambitious goal of lifting UK public and private research and development investment to 2.4 per cent of GDP by 2027. It is why we are developing four Grand Challenges, the big drivers of social and economic change in the world today: harnessing artificial intelligence and the data revolution; leading in changes to the future of mobility; meeting the challenges of our ageing society; and driving ahead the revolution in clean growth. By focusing our efforts on making the most of these areas of enormous potential, we can develop new exports, grow new industries, and create more good jobs in every part of our country.

Years of hard work and sacrifice from the British people have got our deficit down by over three quarters. We are building on this success by taking a balanced approach to public spending. We are continuing to deal with our debts, so that our economy can remain strong and we can protect people's jobs, and at the same time we are investing in vital public services.

I believe that Britain can look to the future with confidence. We are leaving the EU and setting a new course for prosperity as a global trading nation. We have a Modern Industrial Strategy that is strengthening the foundations of our economy and helping us to seize the opportunities of the future. We are building on our country's great strengths – our world-class universities and researchers, our excellent services sector, our cutting-edge manufacturers, our vibrant creative industries, our dedicated public servants – we can look towards a new decade that is ripe with possibility. The government I lead is doing all it can to make that brighter future a reality for everyone in our country.

“British politics provides ample material for analysis in the pages of *The Parliamentary Review*”

Foreword

Liz Field

Chief Executive, PIMFA

It's now just over a year since PIMFA came into being as a result of the merger between the Wealth Management Association (WMA) & the Association of Professional Financial Advisers (APFA) in June 2017, uniting the two memberships into one strong voice representing our profession.

Our resulting combined vision for our industry, described in our Member's Manifesto, was launched at the House of Commons on June 19, setting out our five-year approach to creating an optimal future environment within which our member firms can more fully meet their client's needs and to promoting our industry as a force for good. It also lays out our calls and commitments for industry and its stakeholders to develop robust and thriving retail investment markets, encompassing appropriate and proportional regulation that individuals, families, charities and others can access easily to benefit from the services they offer.

The current environment has in the last year been characterised by two things above all – Brexit, with all that it entails, and the largest regulatory load to land in this sector for 20-odd years, during both of which we have continued to represent the sector in lobbying, recommending and leading policy and regulatory thinking.

Our research initiatives, such as the Millennial Forum and the Financial Adviser Market in Numbers (FAMIN) Report, continue to inform the debate as to current and future trends, enabling our members to fully understand the issues of both client retention and the development of strategies designed to engage with the generations to come.

One of the major challenges of our time is cyber and financial crime. In the UK, this is now estimated to cost every man, woman and child in the country in excess of £100 per year, and the Global Cyber Alliance predicted at our Financial Crime Conference in January that the global cost of this type of crime will hit $2 trillion by 2019 – a threefold increase from 2015. Tackling this prospect is addressed by one of the six pillars in our manifesto – enabling business protection through data protection and cyber resilience – as well as the publication of 14 useful guides on our newly-upgraded website. We are working closely with our members to raise awareness of what solutions currently exist and how a culture of prevention can be incorporated into an overall sector digital strategy fit for the future.

Our on-going public policy and pensions work is continuing apace. Our primary focus for the coming months will be to work alongside other stakeholders to ensure that the right balance is found between the underlying principles of freedom and choice, and the obvious protection that certain consumers will require at the point of retirement through the Financial Conduct Authority's Retirement Outcomes Review work.

While Brexit still dominates the political landscape, and will continue to do so for some time to come, the precise nature of our sector's future remains unclear but, in a wider sense, we are committed to addressing issues as they appear and to helping our members to understand and deal with any consequences which may arise. In our Member's Manifesto, we have set out our vision for the future of our industry and our methodology for making that vision a reality through consistent advocacy, close liaison with industry stakeholders and a vibrant and contributory membership, helping our sector to grow and prosper.

> "One of the major challenges of our time is cyber and financial crime"

The Parliamentary Review

A message from Lord Pickles and Lord Blunkett

The ability to listen to and learn from one another has always been vital in parliament, in business and in most aspects of daily life. But at this particular moment in time, as national and global events continue to reiterate, it is uncommonly crucial that we forge new channels of communication and reinforce existing ones.

With ongoing fractures in Westminster, the reverberations of which are being felt across the country, it is essential that politicians have a firm understanding of the challenges with which British organisations must contend; and that leaders in both the public and private sectors are aware of the difficulties faced by those working in all levels of politics, from local government to the national arena.

This is why *The Parliamentary Review* combines political content with stories from a wide range of organisations – small and large; new and old; those at the peak of their powers and those who have peaks to surmount. It is why these stories seek to inspire and challenge all who read them.

And it is why we, as former Labour and Conservative cabinet ministers and current members of the House of Lords, feel it is important to put aside our political differences and work together to ensure these stories are given the platform they deserve.

In this publication, you will find an insightful take on the past year in politics from the BBC's Andrew Neil and a concise rundown of key events in industry and parliament. Most importantly, you will be able to read in-depth accounts from the individuals and organisations who make *The Parliamentary Review* what it is.

In this edition there are various insights into – for instance – technological change and its potential to transform the sector alongside challenges in matters of compliance and social responsibility. It is our great honour and pleasure to have helped provide the platform for these commentaries to be aired. We hope that you find these articles – which begin on page 18 with a piece from Franklin Templeton Investments – as thought-provoking and informative as we do.

Rt Hon The Lord Blunkett
Co-chairman, The Parliamentary Review

Rt Hon The Lord Pickles
Co-chairman, The Parliamentary Review

Andrew Neil

Economy thrives while politics divides

It's been over two years since the country voted to leave the European Union, but Brexit continues to hang over British politics like an all-encompassing dark, brooding cloud, discombobulating established relationships and upturning traditional verities wherever we look.

Social class no longer largely determines how you vote in the UK. The latest polls suggest the Tories now enjoy a lead among working-class voters. They've always won a chunk of working class votes – Disraeli called them his "Angels in Marble" – but never a majority.

As for Labour, even under its most left-wing leader ever, it now garners considerable support among the professional middle classes, especially in the major metropolitan conurbations.

The reason for this psephological seachange is Brexit. If you voted Leave, you are now more likely to vote Tory; if Remain, Labour.

Brexit is now *the* dividing line within Labour and the Conservatives. It splits the cabinet and shadow cabinet, backbenchers of both parties and their voters in the country. The Tory divisions are more obvious to see because they are the governing party and make big news. But Jeremy Corbyn has managed to lose 103 frontbenchers, often through Brexit-related resignations, which doesn't quite have the impact of Boris Johnson or David Davis walkouts, but must be something of a record nevertheless.

Brexit has also induced something of *rigor mortis* on both frontbenches. For nearly all of the past parliamentary year, cabinet ministers and leading Labour spokespeople have been unable to answer the simplest questions on our post-Brexit state when it comes to the customs union, the Irish border, immigration policy and the single market. Only recently, with the Article 50 deadline looming, has some clarity emerged – and not always. I believe this widespread prevarication has added to voter disillusion.

Just as important, nearly all non-Brexit matters have been swept into a Brexit-induced Bermuda Triangle. This is understandable. But it has added to the gulf between parliament and the people.

The impact of Brexit on the parliamentary process has been generally unpredictable and often amusing. Left-wing Remainers now speak of the House of Lords as a bastion of democracy. Right-wing Leavers sound increasingly like peasants with pitchforks, determined to bring the whole edifice of the upper house tumbling down.

Jeremy Corbyn, who's spent his political career railing against the iniquities of the market economy, now poses as the champion of business (up to a point). Brexiteer Tories regularly mutter anti-business sentiments in unprintable language.

Overarching all this turmoil and uncertainty, as I explained in *The Parliamentary Review* last year, is the resurgence of the two-party system in England, another consequence of Brexit. At the 2017 general election, the Leaver Right collapsed into the Tories and the Remainer Left flocked to Mr Corbyn's Labour party. It is beyond strange that the two main parties should be doing so well when many regard them as weaker, less talented and more divided than they've been in living memory. But they got easily over 80 per cent of the English vote between them in 2017 and all polls since suggest that is the new *status quo*.

The fundamental parliamentary fact in this post-referendum era is that there is no majority for what hardliners on either side of the Brexit divide would like. So, when it comes to determining the eventual shape of Brexit, parliament is very much in the driving seat, as the government has found out the hard way. The problem is it's not sure what parliament wants that shape to be.

Business might despair at what it sees as an increasingly dysfunctional political system. But it should take comfort from the fact that economics and politics are, for the moment, going their separate ways. No matter how much you might think politicians are mucking it up, the economy in general and business in particular continue to defy them.

I have thought for sometime that business and the economy are in much better shape than established opinion would have it. There were signs in the early summer of 2018 that this was indeed the case. But, by the time you read this, you'll have a much better idea if I'm right. Keep your fingers crossed – not for my sake, but for the country's!

Neil believes the two-party system is the new *status quo*

Review of the Year

First test case for new whistleblowing regime

Jes Staley, the CEO of Barclays, was fined a total of £642,430 by financial regulators

In May 2018, Jes Staley, CEO of Barclays Bank, was fined a total of £642,430 by financial regulators for trying to uncover the identity of an anonymous whistleblower. Staley also had his 2016 bonus of £500,000 withdrawn by the bank, adding to the total cost to him of what he has admitted was "a mistake".

In a statement Staley said: "I have consistently acknowledged that my personal involvement in this matter was inappropriate, and I have apologised for mistakes which I made." The CEO's total loss over the incident was £1.41 million, which should be more than enough to deter any future high-ranking bank official from making a similar mistake. In Staley's case the personal cost to him, apart from the embarrassment of being called out publicly by the Financial Conduct Authority (FRA), amounted to around 27 per cent of his total compensation package.

Only the fact that Staley co-operated with the investigations by the regulators prevented an even steeper fine. According to the regulators Staley's co-operation earned him a 30 per cent discount. The fine would otherwise have been in excess of £900,000.

Barclays chairman, John McFarlane, commented: "The board takes Barclays' culture and the integrity of its controls extremely seriously. The board is pleased that the FCA and Prudential Regulation Authority (PRA)'s investigations have concluded and are now behind us. The board has reiterated its support for Jes, as have shareholders at [the] Annual General Meeting."

The incident involves events that occurred in the summer of 2016 when the board received anonymous allegations that Staley had covered up a friend's personal problems when his former colleague at JPMorgan Chase was hired by Barclays. Incensed, Staley had tried to discover the source of the allegations, which was where the FCA and PRA deemed he had crossed the line.

Mark Steward, head of enforcement at the FCA, commented: "Mr Staley breached the standard of care required and expected of a chief executive in a way that risked undermining confidence in Barclays' whistleblowing procedures." He went on to point out that whistleblowers play a vital role in exposing poor practice and misconduct across the financial services sector. "It is critical that individuals are able to speak up anonymously and without fear of retaliation if they want to raise concerns," he told the *Financial Times*.

Jonathan Cox, the senior compliance officer responsible for Barclays' whistleblower programme, left the bank over the incident. He withdrew a claim he made to the London employment tribunal shortly before it was due to be heard after reaching an undisclosed settlement with the bank.

While the UK side of the incident is now resolved, Barclays and Staley still face the prospect of further and possibly even steeper fines from US regulators who are investigating the matter. The New York State Department of Financial Services, which has a reputation for dishing out steep penalties to banks, has yet to pronounce its findings and conclusions.

FCA's report for 2017 and its plans for 2018

On April 9, 2018, the FCA published its business plan for 2018/19. FCA CEO Andrew Bailey made it absolutely clear that while the FCA is facing a tremendous workload in the year ahead, across a number of fronts, it has had to set aside a very large chunk of its time and resources to deal with Brexit-related issues.

Brexit aside, summing up the FCA's work-plan, accountants KPMG see the FCA being involved across the following areas:

- » Firms' culture and governance
- » Tackling financial crime (fraud and scams) and anti-money-laundering (AML)
- » Data security, resilience and outsourcing
- » Innovation, big data, technology and competition
- » Treatment of existing customers
- » Long-term savings, pensions and intergenerational differences
- » High-cost credit

Given that the FCA has limited resources, the main problem it faces, as Bailey pointed out in the press conference that accompanied the launch of the business plan, will be working out how best to accommodate all the work that is going to be needed on Brexit. The fact that there is still

The legislation associated with Britain leaving the EU is by far the largest piece of work that the FCA is involved with at present

a high level of uncertainty about the various outcomes with Brexit – at the time of writing both David Davis, the Brexit secretary in Theresa May's government, and the foreign secretary, Boris Johnson, had just tendered their resignations – the FCA is facing an uphill task.

"The assumption we are making is that we are still working towards exit in just under a year," Bailey said. The withdrawal legislation is the largest single piece of work that the FCA is involved in at present. The FCA intend to create an international division through the course of the year to ensure that the regulator remains "outward-looking" and sends a strong signal about the importance it places on sustained international engagement.

Barclays Group CEO declares 2017 "a terrific year" as court dismisses fraud charges

Barclays reached a £1.4 billion settlement with the US Department of Justice

In May 2018, in a huge setback for the Serious Fraud Office (SFO), the UK court hearing the case against former Barclays CEO John Varley and three other executives, over the bank's fundraising from Qatar during the 2008 financial crisis, dismissed the fraud charges.

The case had been closely followed around the world, with the public and the media keen to see if a really senior banking figure would actually be held accountable for wrongdoing over the global financial crisis. The SFO had been investigating the case for five years and brought charges in June 2017.

At issue was the way the bank raised £11.8 billion in emergency funding from Qatar at the height of the global financial crisis. It was the first attempt anywhere in the world to bring criminal charges against senior bankers over any aspect of the 2008 global financial crisis. Reporting on the charges in June 2017, the UK newspaper *The Guardian* said that the charges related to the two fundraisings the bank embarked on in June and October 2008 with two investment vehicles related to Qatar, including one used by the prime minister at the time, Sheikh Hamad bin Jassim bin Jaber al-Thani, and a $3 billion (£2.3 billion) loan advanced to Qatar in November 2008.

In an interview in February 2018, immediately following Barclays' announcement of its 2017 full year financial results, Barclays Group CEO Jes Staley said that 2017 had been a "terrific year" for the bank and had paved the way for a fresh start.

"2018 is the first year of the last five years that we start with a clean operating bank," he said. "We printed a CET1 ratio of 13.1 per cent, that is the ratio of CET1 capital to risk weighted assets. That capital strength, as well as our confidence in our earnings going forward, allowed us to say that we are planning a 2018 dividend of 6.5 pence. That is more than double what we paid in 2016 and 2017." Investors will be delighted, and Barclays' share price rose on the news. However, the media was less enthusiastic, calling the bank's 2017 results "disappointing".

Investment banking income was "lackluster" and restructuring costs plus US tax reforms had hammered the bank's bottom line, despite the decision to restore the full dividend, said *Business Insider*. Analysts had been expecting a pre-tax profit of £4.7 billion. The actual reported pre-tax profit was a miss, at £3.5 billion, though it was slightly up on the 2016 figure of £3.2 billion.

The *Financial Times* focused on the fact that Barclays reported a full year loss of almost £2 billion (£1.92 billion), thanks to one-off tax and disposal charges. Revenues fell 2 per cent and pre-tax profits rose 10 per cent, with the loss resulting from the bank having to take a large hit on the sale of its African operation and to cover the one-off cost of US corporate tax reform.

On the positive side, Staley pointed out that towards the second half of the year the bank increased its mortgage portfolio by some £4 billion. The UK bank also grew its deposit base by £4 billion during the 2017 financial year. With the restructuring complete, Barclays International is now very much focused on being a transatlantic consumer and wholesale bank, he said. Plus he said he was very happy with the progress being made on the technology front and mobile banking, and with the way the bank was growing its private banking business both in the UK and Europe.

On March 31, Barclays announced its Q1 2018 results. An improved Q1 year-over-year result, which resulted in an attributable profit of £1.2 billion, was turned into a quarterly loss of £764 million after litigation and misconduct charges. Barclays reached a £1.4 billion settlement with the United States Department of Justice (DOJ) relating to residential mortgage-backed securities deals, and a further hit to settle payment protection insurance (PPI) charges.

Excluding litigation and misconduct costs, the bank's group return on tangible equity was 11 per cent, up from just 2 per cent for the same quarter in 2017. Staley and the board were able to drive group operating expenses down by 6 per cent to £3.4 billion, realising a cost-to-income ratio of 63 per cent.

Commenting on the Q1 results, Staley said: "This has been a significant quarter for Barclays, one in which we have shown that our new operating model and our portfolio of diversified, profitable businesses are capable of producing improved returns for shareholders."

Lower revenues in the UK for Barclays in 2017 was offset by a stronger performance overseas

The benefits of diversification were clearly shown, he said, by the fact that lower revenues in the UK business, driven by one-offs, were offset by a stronger performance in Barclays International, particularly in the Corporate and Investment Bank, which reported profit before tax up 49 per cent, and a return on tangible assets of 13 per cent. The performance was enough, he said, to increase confidence that the bank would meet its return on tangible assets target of 9 per cent in 2019 and 10 per cent in 2020. And the dividend of 6.5 per cent for 2018, as promised in the 2017 full year results, was still on, he said.

On December 5, 2017, Barclays announced that it had made the final disposal it was going to make of its stake in Barclays Africa. The 7 per cent stake sale leaves the bank still holding 14.9 per cent, which, it said, represents its desired long-term holding. When Barclays first announced its intention of selling down its holdings in Barclays Africa, in March 2016, the bank held a 62 per cent stake. However, when he took over as CEO, Jes Staley said that the bank would be refocusing its strategy on the UK and the US, and Africa was non-core.

First year of profit in a decade for RBS

Chancellor Philip Hammond welcomed RBS' settlement with the US Department of Justice, saying it would allow for the government to sell off the remaining 71 per cent of the bank owned by the British taxpayer

The last year has really been a much better one for the Royal Bank of Scotland (RBS). After a decade of reported annual losses, the bank finally made a profit in 2017. RBS CEO Ross McEwan called the bank's £752 million profit "a symbolic moment". By way of contrast, in 2016 the bank reported a loss of £7 billion.

RBS made a 2017 operating profit of £2.239 billion, up some £6.321 billion by comparison with 2016. Adjusted operating profit increased by 31.1 per cent to £4.818 billion, after deductions for matters such as litigation and conduct costs (£1.285 billion) and restructuring costs (£2.106 billion), plus sundry other deductions.

During a Radio 4 interview, McEwan pointed out that ten years ago RBS was, briefly, the largest bank in the world, with a balance sheet of £2.2 trillion, before its spectacular fall from grace. "We've been restructuring the bank, but it's taken time and a lot of cost to come out of countries and businesses we didn't want to be in," he said.

At the time McEwan and the bank were still awaiting the outcome of negotiations with the US DOJ to settle events associated with the sale of financial products linked to risky mortgages in the run-up to the financial crisis. In July, talks between the two were finally resolved with RBS agreeing to pay a £3.6 billion penalty. The resolution of this long-running litigation marked a milestone moment for RBS, McEwan said.

Commenting on the settlement with the DOJ, he added: "Today's settlement with the DOJ is a stark reminder of what happened to RBS in the past when it focused too heavily on its global ambitions. This bank and the British taxpayer have paid a very heavy price for those poor decisions. This is a symbolic moment for this bank and will allow us to put one of our largest legacy issues behind us. We know we still have more to do but drawing a line after this issue is a milestone moment for us. It also means that the investment case for the bank is much clearer and the prospect of returning excess capital to our shareholders is getting closer."

In welcoming the judgment, the chancellor, Philip Hammond, said that the agreement between RBS and the DOJ would help to pave the way for the government to finally sell off the 71 per cent the taxpayer still owns of RBS. The Treasury has said that it plans to sell £15 billion of RBS shares, or two thirds of its stake, in £3 billion tranches, some time between now and 2023. The taxpayer is expected to see a loss of some £26 billion and will have recovered just under £20 billion of the £45.8 billion bailout given to RBS at the height of the global financial crash.

HSBC results draw praise and criticism

In February 2018 HSBC reported its full year 2017 results. Commenting on the results, group chief executive Stuart Gulliver said that retail banking and wealth management had had an excellent 2017. "We continued to grow lending in our target markets, especially Hong Kong, the UK and Mexico," he said.

The media was less impressed. Profit before tax was $17.2 billion. While this was hugely up on the $7.1 billion profit for 2016, it was below the consensus expectations of analysts, which was $19.7 billion. The bank's shares fell around 4.4 per cent when the figures were released.

These results were the last with Gulliver at the helm. After seven years in the role he handed over to a new management team headed by the new Group CEO, John Flint, himself a lifelong career banker.

In May HSBC announced its first quarter results for 2018. The figures show that HSBC improved revenues but saw profits fall as expenses rose. Revenue was up 6 per cent to $13.7 billion, driven by higher deposit margins and growth in its retail banking and wealth management services.

Q1 results in 2018 for HSBC saw expenses up 13 per cent, lending to an overall profit drop of four per cent

At $9.4 billion, operating expenses were up a whopping 13 per cent on the first quarter for the prior year. However, HSBC put a positive spin on this, saying that the increased expenses related to investments made to grow the business and to enhance the bank's digital capabilities. As a result of the higher expenses, profits dropped 4 per cent to $4.8 billion.

Commenting for the first time on his bank's quarterly results, the new CEO, John Flint, said that HSBC's global businesses performed well in the first quarter, maintaining the momentum carried forward from 2017.

Huge profits for Lloyds, amid questions from unions and Corbyn

Announcing its annual results on February 21, 2018, Lloyds Banking Group showed a 24 per cent year-over-year increase in profits to £5.3 billion and said it would be handing more than £3 billion back to shareholders in the form of dividends and surplus capital. The results were sufficient to earn Lloyds CEO António Horta-Osório a massive £6.4 million payout, giving him an effective pay rise of 11 per cent through 2017.

Unions, not surprisingly, were a touch disgruntled, pointing out that the average pay increase for staff was just under 2 per cent that year. This was enough to prompt an attack from the Labour leader, Jeremy Corbyn, who promised "a fundamental rethink of whom finance should serve and how it should be regulated" were Labour to return to office.

"We will take decisive action to make finance the servant of industry, not the masters of us all," he said. Again, quite how performance-related pay for C-level executives equates to finance being "the masters of us all" is lost in the fog of politics.

Interestingly, Horta-Osório continues to see pensions and insurance as a major growth area for the Group and points out that Lloyds is now the only major bank to offer both banking and insurance. This is despite the fact that Lloyds is still bleeding cash from its mis-selling of PPI. It took a £1.65 billion charge against PPI payouts for 2017, up from £1 billion in 2016. In the fourth quarter of 2017, PPI claims rose from 9,000 in the third quarter to 11,000. So far, the PPI mis-selling scandal has cost the bank a staggering £18.7 billion. Undeterred Horta-Osório has set his team the ambitious target of achieving 1 million new pension customers by 2020.

The Group is still in the process of slimming down its branch closures to accommodate the huge shift in public banking habits from branch-based banking to online and mobile banking. It closed 49 branches in November 2017 alone, but Horta-Osório would not give a figure for the total number of branches Lloyds expects to close through 2018.

Banking groups generally are set to see profits increase if the Bank of England maintains its policy of slowly raising interest rates through 2018 and 2019.

Financial services and Brexit – all still to play for?

Banks, regardless of the deal (or lack thereof) between the UK and EU, will be impacted one way or another

On June 28, 2018, the House of Commons Library published a well-thought-through briefing paper entitled Brexit and Financial Services. Unfortunately, as the report itself notes, "Along with many other industrial and commercial sectors, the more considered reaction of the [financial services] industry to any question is: 'it all depends'."

In the report's own words: "There is little certainty over what will happen next and [the] gulf between what the industry wanted at the start of the process and what it looks as though it will achieve now is quite wide."

"In the absence of any clear guidance on what the EU negotiations will lead to in terms of the treatment of services, commentators have largely been reduced to guessing what large institutions intend to do from their pre-vote statements and matching these to the permutations of different possible negotiation outcomes."

It is difficult to argue with this summary of the situation the industry currently finds itself in. Of any particular institution currently trading in the City of London, or in the UK generally, the crunch point, it appears, is "will they stay or will they go?"

As the report notes, while banks generally are supposed to have their hands quivering over the relocate button, in actual fact so far only a single bank and the European Banking Authority have said that they are leaving. What we have seen is a number of institutions hurriedly setting up European arms, and transferring staff and functions to those new offices, so that they are in a good position, whatever the outcome of the Brexit negotiations, to continue to provide services to European clients. That said, those banks will still doubtless be impacted, one way or another, by whatever agreements are finally reached, or not reached, between the UK and the EU.

Competition from Frankfurt

Two members of the University of Sheffield Political Economy Research Institute (SPERI), Dr Scott Lavery, a research fellow at SPERI, and Davide Schmid, a doctoral researcher, recently published a briefing paper based on field research in Frankfurt. This involved interviews with what they say was a broad range of elite stakeholders based in the city's financial centre.

What they found was that there was a clear complex of public and private actors, including local political authorities, marketing agencies and banks with regionally focused business models, driving the promotion of Frankfurt as a great place for banks to relocate to. Germany's political and economic stability was cited as a strong plus for the city, though German politics looked anything but stable at the time this was written, with Chancellor Angela Merkel fighting to keep her position and to keep her coalition government from falling.

The city is also home to important European and German regulatory institutions, including the European Central Bank and the Bundesbank. The report notes that Paris and Luxembourg are also lobbying strongly for disgruntled UK financial services companies to relocate to them.

According to the report, buoyed by decisions from the likes of Goldman Sachs and others to open branches in the city, Frankfurt expects employment in its financial services sector to expand by 5,000 to 10,000 over the next four years. Much of this will be at the expense of the City of London – if it happens.

The Frankfurt Stock Exchange, the world's tenth largest, hopes to capitalise further on any businesses choosing to depart from the City of London

The point about all this foreign competition for the City of London is that Frankfurt and centres like Paris and Luxembourg are very serious players. Frankfurt is already home to many of the big names of the German and international banking sector. Plus the German stock exchange is in the city, and its regulators have set out their stall to be really helpful to banks looking to relocate.

Commenting on the attitude of the regulatory authorities in Frankfurt, people interviewed for the SPERI report pointed out that BaFin, the German Federal Financial Supervisory Authority, was a predictable regulator that could be relied upon. The report quotes one respondent at a senior institution as saying: "You can talk openly with BaFin about what infrastructure needs to be in place. It's not: 'Send us a letter and we will say whether it is a yes or a no'. It is a process of collaboration. BaFin offers to do bilateral meetings with banks and they have specific teams dedicated to each bank in order to assist them with their application and to support them during the procedure."

All of this is doubtless giving the UK banking fraternity much to ponder. Quite how it pans out remains to be seen.

The British Bankers' Association (BBA) on Brexit

In EU member states, non-EU firms can face significant regulatory barriers

As the leading trade association for the UK banking sector, with 200 member banks the BBA has a huge interest in the outcome of the UK's discussions with the EU, particularly with regard to bank passporting. The EU passporting system for banks and financial services companies enables firms that are authorised in any EU or EEA state to trade freely in any other EU or EEA state, with minimal additional authorisation. Losing their "passport" would be a very big deal for UK banks and other financial services companies.

The BBA points out that in many EU member states, non-EU firms face significant regulatory barriers to providing cross-border banking and investment services to customers and counterparties.

The BBA also notes that there is some EU legislation that provides for "third country" regimes. These rules allow non-EU based firms to offer a limited number of services into the EU provided their home country regulatory regime is accepted by the EU as being "equivalent" to EU standards. However, the BBA points out, these regimes only apply to a handful of banking services and are much more limited in scope and much less secure than the passporting regime.

2017: a tough but successful year for the insurance sector

Accountants EY point out that insurers generally found 2017 a tough year, but overall the sector turned in an improved performance, by comparison with 2016. Tony Sault, UK general insurance leader at EY, said that the firm expected this improved performance to continue into 2018.

However, he pointed out that the sector would have difficulties to contend with. At 3 per cent, inflation was now considered high, in comparison with recent years, and was likely to continue. EY also expects consumer spending to weaken, which is expected to hit the general insurance market if the demand for new cars weakens.

"In fact, we are already seeing signs of a slowdown with The Society of Motor Manufacturers and Traders (SMMT) reporting a sharp 11 per cent year-on-year drop in new registrations in November 2017." His comment proved prescient when SMMT reported in January 2018 that new car sales had fallen in the UK in 2017 for the first time in six years. Demand for diesel cars was sharply down.

In total some 2.5 million cars were registered in 2017, down 5.7 per cent from 2016, while diesel car sales fell by 17.1 per cent as higher taxes and pollution fears hit demand.

However, EY reckons that prospects for the motor industry, and thus for motor insurance, improved dramatically despite the publication of the proposed revised Ogden discount rate for personal injury claims. This relates to the fact that when assessing lump sum awards for personal injuries, courts take into account the net rate of return (profits minus inflation) that the claimant might reasonably expect to receive if they invested that lump sum reasonably prudently. The award is discounted by that amount.

Since 2001 the Ogden discount rate had been 2.5 per cent. However, on December 7, 2016, it was announced that a review of the discount rate would be undertaken. So with effect from March 20, 2017, it was decided that the new discount rate would be reduced to -0.75 per cent. The rate applies retrospectively to all current claims.

Between the Ogden changes and the Civil Liability Bill currently going through the Commons, 2018 should prove to be a rosier year for the motor insurance sector than 2017

The impact of this revision on the general insurance sector is that insurers can expect to incur significant additional costs with classes of insurance such as motor and liability insurance, as well as with any class of insurance that has exposure to personal injury.

"In addition to the Ogden changes, 2018 could also see the passage of the Civil Liability Bill. This would reduce the costs associated with bodily injury, potentially reducing premiums by an additional 8-10 per cent, totalling a £59 per year saving once both reforms are fully implemented. Given these important changes in legislation, we now expect the motor insurance sector to be facing a far rosier 2018 compared to 2017 and predict a Net Combined Ratio (NCR) of 98.5 per cent," Sault said.

Solvency II

On October 25, 2017, the House of Commons Treasury committee published a paper on the impact on the UK insurance sector of implementing Solvency II, the insurance sector directive.

The UK insurance industry, the committee points out, is extremely important to the UK economy. The industry manages investments of over £1.9 trillion and paid nearly £12 billion in taxes to the UK government in 2016.

Brexit may have delayed any reforms to Solvency II

It has a GVA of some £35 billion a year and employs some 305,000 people. A third of these are employed directly by institutions in the sector and the rest work in auxiliary services such as broking. Of the 26.7 million households in the UK in 2014, over 20 million had home contents insurance and/or motor insurance.

Solvency II, which came into force in January 2016, looks to put in place a single regulatory framework that will create a level playing field across the 28 EU member states. It is a "maximum harmonisation" standard, which means member countries cannot add to it to "gold plate" the standard (a practice often used to deter outside, that is, foreign, competition. It is rules based, which immediately creates a tension with the UK's PRA, which is judgment based. The fear is that the narrow, rules-driven interpretation of Solvency II will clash with the PRA's approach.

HM Treasury has calculated that the one-off cost to UK business of implementing Solvency II is around £2.6 billion, with continuing annual costs of around £196 million.

The committee concluded that the Solvency II legislation and its implementation could have been better handled. "More work needs to be done to develop a sound prudent regime … one which promotes diversity and innovation in order to meet the long-term needs of UK consumers," it concluded. However, respondents giving their views to the Treasury committee made it clear that many firms in the sector had already put in a great deal of time, effort and cost implementing Solvency II and were definitely not keen on starting afresh.

Solvency II requires insurers to hold capital against market, credit and operational risk, but these risks are lower for insurers than they are for banks. However, while the PRA is clearly focused on the solvency side of things, the committee found that the industry itself was much more focused on the competitive impact of Solvency II, with the risk that it was tying up higher levels of capital than were necessary and driving up costs, making firms less competitive.

"The industry and the PRA should review their approach to working together … each side may have a different perspective but there should be more common ground and a greater confidence in each other than the committee detected during [its] enquiry," the committee concluded.

ABI on Brexit and the future for the sector

At the Association of British Insurers (ABI) annual dinner on February 27, 2018, ABI director general, Huw Evans, argued that apart from all the other uncertainties clustered around Brexit, the one thing that was really standing out for members was the urgent need for a transitional agreement to take the UK beyond March 2019.

Events since his speech have created at least a possibility that Brexit itself might be either scrapped or subjected to a second referendum. This follows from the fact that Theresa May's cabinet was hit by a spate of resignations from senior ministers unhappy with the prime minister's recently unveiled plan for Brexit, which, again at the time of writing, had still to be presented to Brussels.

Evans pointed out that "early agreement is needed to help businesses and regulators manage the huge changes involved and is so important for clarity with customers on issues such as the EHIC and travel insurance and motor and fleet insurance and green cards". At the time of writing, early agreement on anything relating to Brexit looked highly unlikely.

Evans added: "I hope in the debate ahead about financial services and future access to the EU that policymakers remember that two thirds of insurance and long-term savings jobs are outside London. Whatever the outcome, if we want to retain our place as a world-leading centre of insurance and long-term saving, as the biggest market in Europe, and with London as the international insurance capital of the world, we need to start thinking hard now about how we maximise growth, embrace innovation and attract the best talent and highest-quality capital.

"This is a job for us all; market participants, regulators, politicians and partners. The position we enjoy today is because previous generations seized opportunities and refused to be bound by old certainties. All of us need to find the courage to do the same and have a substantive debate about the choices ahead."

Hew Evans, director general of the ABI, has stressed the importance of a transitional agreement with the EU beyond March 2019

Lloyd's of London and the need for change

Lloyd's was exposed to a string of damaging and costly natural disasters across the planet

In announcing its results for 2017 Lloyd's of London made no bones about the fact that 2017 had been "an exceptionally difficult and challenging year". Lloyd's turned in its first loss for six years, reporting an overall pre-tax loss of £2 billion, down from a profit of £2.1 billion in 2016.

The loss was despite the fact that gross written premiums rose to £33.6 billion, up from £29.9 billion in 2016. The reason for the loss was that 2017 turned out to be one of the costliest years for natural disasters in the last decade. This resulted in claims of more than £4.5 billion, more than double the claims for 2016. This led to an underwriting loss of £3.4 billion as against a profit of £500 million in 2016.

Lloyd's of London syndicates were exposed on multiple fronts. A series of huge storms in the US included the major hurricanes, Harvey and Irma, which hit the south coast of the US as well as the Caribbean.

Commenting on the results, Lloyd's chief executive, Inga Beale, called market conditions "challenging" and said that these were compounded by a significant impact from natural catastrophes.

Lloyd's of London chairman, Bruce Carnegie-Brown, speaking in November 2017 at the London Market Conference warned participants that the slow pace of technological adoption in the mainstream insurance and reinsurance sectors was "creating opportunities for tech-savvy start-ups who see the insurance sector as ripe for disruption". He warned "If we don't react to this competitive challenge by disrupting ourselves, the London market will surely be disrupted by others."

He added that relentless downward pressure on pricing was making it harder and harder for the industry to deliver sustainable growth. "Technical pricing is out of kilter with risks covered and for many of us, profitability is declining. At the same time costs remain stubbornly high. No one I speak to thinks the London market's expenses are sustainable. They are not just reducing our returns on capital; they are making us vulnerable to more efficient competitors … We would be very foolish to allow the prospect of firming insurance prices post the recent hurricanes to persuade us that change is not required," he cautioned.

Similar issues – and potential solutions to them – are discussed in depth in the articles from this year's *Parliamentary Review* representatives.

Franklin Templeton Investments

Martyn Gilbey, UK country head

AT A GLANCE
FRANKLIN TEMPLETON INVESTMENTS

- » Chairman and CEO: Greg Johnson
- » UK country head: Martyn Gilbey
- » Established in 1947
- » Based in London, Edinburgh and Leeds
- » Services: Asset management
- » No. of employees: Over 9,200 worldwide
- » Offer over 150 investment strategies worldwide – from traditional to alternative investments
- » www.franklintempleton.co.uk

By drawing on its heritage of good corporate citizenship, Franklin Templeton Investments, a global asset manager with UK offices in London, Leeds and Edinburgh, is rising to the challenge of technological disruption and evolving investor expectations. They seek to deliver outcomes that help their clients to secure their financial future – UK country head Martyn Gilbey elaborates.

The state of the union

The UK is a world leader in asset management – it is the industry's largest centre in Europe, and, globally, second only to the USA. According to the Investment Association, asset managers employ 93,500 people in this country, and are critical to the success of the wider economy: they provide 60 per cent of capital market financing for British businesses, and buy 65 per cent of new bonds.

The industry, however, is going through a period of significant change. New technology is transforming both client expectations and the way asset managers inform their decisions. Regulatory change has altered business models and opened a financial "advice gap". There is also a growing interest in the governance of investments alongside their social and environmental impact.

Change from outside is impacting the industry too. Shifting demographics make building a secure financial future more important than ever, yet young people are saving less than previous generations. In the political arena, there is still uncertainty surrounding the final Brexit deal.

These forces are spurring the asset management industry to innovate to attract and retain investors. We have responded to the considerable challenges facing our industry by drawing on our corporate values and putting clients' interests at the heart of all decision-making.

Protecting our clients

In practice, this means three things: we are integrating environmental, social and governance (ESG) considerations within the investment process and in our actions as a company, we are embracing new technologies and we are maintaining investment excellence. Take ESG first: our firm was founded in 1947 by Rupert H. Johnson Sr, who named the company after Benjamin Franklin. To many Americans, this founding father epitomises frugality and prudence. Franklin is also credited with popularising the saying "Do well by doing good".

In this spirit of civic engagement and citizenship, we believe that being a good corporate citizen is good business. Strong economies and societies around the world help to fuel the growth of our business, while integrity, trust and responsibility are essential to our continued success. How we operate as a firm, how we treat our people and how we behave in our communities not only affects our business, but also impacts our reputation with investors, customers and employees.

Clients are increasingly looking for asset managers who can demonstrate how ESG is embedded in their investment philosophy. By integrating these factors into investment analysis along with traditional financial measures, we have been able to reach a fully representative view about the organisations in which we invest. This approach allows us to evaluate the potential risks to an organisation's value caused by ESG issues – the cost of cleaning up pollution, for example, or reputational damage – as well as the rewards for long-term valuations. We believe that ESG can be a driver of long-term investment performance by helping to identify new opportunities while mitigating risk.

We employ a dedicated team of ESG specialists; they act as a central resource for investment teams to provide insight and guidance on ESG while also contributing to industry and regulatory debate. We are also a member of or signatory to a number of industry initiatives, including the Principles for Responsible Investment, the UK Sustainable Investment and Finance Association (UKSIF) and the UK Stewardship Code.

Innovation and technology

Our second focus, technology, prioritises improving the service we give our clients, optimising information management and making our operations more efficient. There are three ways in which we are using financial technology to improve returns for our investors and our business. These are:

1. Building our skills in investment management data science to gain an information advantage for our investment teams.

To accomplish this, we are building a data science and artificial intelligence centre in India, and have embedded data scientists in each investment team. Our data scientists have access to a centralised "hub" of pooled resources in data analytics, and use a common set of applications and tools for analysis. This ensures consistency as well as open access to a backlog of demonstrable best practice and quality ideas.

2. Using our strategic investment pool to invest in technology innovators that can be complementary or even disruptive to our business.

By taking a front-row seat and partnering with these companies, we can be at the forefront of developing the technology that impacts the traditional asset management model.

3. Building and testing our own technologies expediently through a rapid development process.

For our own innovations, we move rapidly from concept to design to a prototype phase, just as a start-up would do. If it doesn't work, we discard it and move on to the next idea. We work at the same pace as the fintech companies that are disrupting or otherwise affecting our business.

Investment excellence

Our third overarching commitment is to investment excellence. Our dedication to rigorous research and disciplined risk management helps us to identify organisations with attractive valuations and good long-term growth prospects. Decade after decade, our consistent, research-driven processes have helped us to earn strong, long-term results for clients and shareholders.

In this period of significant change for the industry, our clients, be they individuals or large pension funds, increasingly demand services and products that are tailored to their goals and values. They also want the technology that places investment decisions at their fingertips. We believe that our commitment to ESG, to technological innovation and to investment excellence will allow Franklin Templeton to deliver outcomes that fit our clients' goals rather than tracking market benchmarks.

Staying stalwart

For more than 70 years, our firm has been navigating the world's financial markets and building a globally diversified business. Asset management is changing, but our unchanging corporate values of putting clients first, building relationships, achieving quality results and working with integrity will continue to drive how we work and do business.

Franklin Templeton employees volunteering in the community

> "How we behave in our communities not only affects our business, but also impacts our reputation with investors, customers and employees"

Edinburgh employees supporting Alzheimer Scotland's Dementia Challenge

BGC's Sterling Treasury Division

Luke Pledger, senior managing director, Sterling Products

Headquartered in London and New York, BGC provides a wide range of financial services including trade execution, broker-dealer services, clearing and processing. BGC's Sterling Treasury Division boasts a wealth of experience in servicing local authorities, housing associations, universities and the money fund community. Part of our role is to identify synergies between various customers, utilising our product expertise and knowledge of market structure. Servicing the majority of the UK's local authority community, BGC is able to exploit its robust market share in efforts to identify previously under-investigated opportunities for our clients.

AT A GLANCE
BGC'S STERLING TREASURY DIVISION

- Senior managing director, Sterling Products: Luke Pledger
- Established in 2004
- Based in Canary Wharf, London
- Services: Cash and securities dealing, long-term funding and treasury solutions
- Objective: To operate as a conduit to the market and connect our network of customers, to ensure delivery of strategies and increased efficiencies
- www.bgcpartners.com

Purpose

Public sector authorities are obligated to invest responsibly on behalf of their various local communities. BGC is acutely aware that our clients' investment appetites and criteria are set against a backdrop of stringent legislature. Internally, investment strategies are strictly governed by councillors and stakeholders. Externally, they are governed by the Ministry of Housing, Communities and Local Government, as well as organisations such as Homes England. BGC believes opportunities exist for a greater cross-sector collaboration of public and private organisations with a particular focus on real estate. It may be possible to satisfy investor and public sector requirements, while raising capital cost-effectively and putting it to use for the long-term benefit of communities and stakeholders.

Operating environment

Local authorities. Our clients' appetite for funds requires a careful balance between socially responsible investment and a swelling demand for higher returns, all within a strictly governed investment directive. Traditionally, local authority funds have been invested in cash deposits, T-bills and gilts, which provide a return limited to the vanilla nature of those products. In addition, local authorities are being encouraged to innovate within the social housing directive and widen their ambition with regard to the building and acquisition of housing.

Housing associations. With demand for housing far outstripping supply, housing authorities have the unenviable task of continually identifying development opportunities. Historically, the onus has been on housing associations to provide the majority of social housing. However, the private sector could fulfil a more fluid and dynamic role, increasing the quality, quantity and overall choice of housing. An effective reclassification as "private sector" should promote a fresh, commercial approach to the development of more homes.

Housing developers. Developers often struggle to obtain blended funding costs that are competitive and commercially viable. As such, development funding can materially impact margin, adding to overall development risk. Large-scale PLCs develop utilising their balance sheet, and so their margin is greater than that of small to medium-sized developers. Therefore, anything other than large-scale schemes is of little interest to them. Some of the best land available is in small to medium-sized plots. However, smaller-scale developers will often find half of their net profits allocated to interest and capital costs. It is not unusual for funding rates to exceed 8 per cent, even though we have witnessed a near-zero-per-cent interest-rate environment for a decade. Funding rates have not fallen in parallel with base interest rates. As a result, some of the best plots can sit idle or undeveloped for long periods of time.

Additionally, a stagnant housing market coupled with stunted asset growth means that retention of production margin is ever more challenging. Housing developers are entirely reliant on demand over-leveraging supply, so as to guarantee a return. Ironically, in a society starved of social housing, it is often easier to source land than it is to source viable funding. This highlights the need to identify opportunities to fill this gap in funding, resulting in both commercial and social benefit.

Proposal

Local authorities. BGC feels there are opportunities to invest in social housing developments within a more focused government-led directive. This would meet with social responsibility, while enabling local authorities and housing associations to yield higher returns than traditional investments. Although some collaboration between the developers and public sector entities exists, it is sporadic in nature, inefficient and fundamentally flawed.

The opportunity to secure competitively priced housing units in return for funding at comparatively competitive but commercially advantageous rates must surely be attractive to those local authorities who are tasked with the delivery of homes. BGC can offer an expanded coverage in order to highlight opportunities and alternative investments that have historically not been pitched to the local authority network.

Housing associations. As a result of increased interest from local authorities, BGC is of the view that housing associations would see an uptick in development properties. A directive-led change of a housing association's approach to investing in, funding and acquiring housing would enable greater access to private sector developments at potentially favourable cost. Goodwill in the community should also be anticipated, resulting in a more fluid and dynamic relationship between developers and registered providers.

Housing developers. BGC would like to see developers receiving local authority funding to complete projects on rates that are both within tolerance levels and commercially beneficial to those authorities. Activity within the social housing sector would increase if developers could retain sensible profit margins, simultaneously decreasing development risk. Guaranteed buyers, alongside lower funding costs, will give developers confidence to build houses appropriate to demand, correlating with social housing requirements.

> “Raising capital cost-effectively and putting it to use for the long-term benefit of communities and stakeholders”

» KEY TAKEAWAYS

BGC considers that the current investment needs of all parties discussed within this article could be better optimised. A historic lack of cohesion between the sectors, coupled with public sector dependency on traditional investments, creates a dynamic that is less than efficient.

Direct connection of developers to the public sector may not be limited to social housing, but could include retirement homes, student accommodation and schools.

Expanding the target market for social housing would allow local authorities and housing associations to reach a new, expanding group of millennial professionals who increasingly cannot afford to house themselves.

Local authorities have a fiscal duty to enhance the environment, while undertaking a sensible investment policy. Increasing property investment within boroughs, including the statutory social housing quota, will bring a two-fold benefit to local communities.

BGC's strength and experience as a leading interdealer broker enables us to find synergies between our clients. We can offer a platform to introduce alternative asset classes, counterparties and structures that fit within our clients' existing and future investment strategies. We are keen to sponsor these much-needed changes and address issues that are at the heart of the housing crisis.

Stifel

Stifel has been around since 1890, and was founded in St Louis, Missouri by Benjamin Altheimer and Edward Rawlings. Seven years after Altheimer and Rawlings formed their partnership, Herman Charles Stifel was brought in as treasurer; his father Christopher previously founded the St Louis Ethical Society. Herman would chart the firm's success for the first 40 years of the 20th century with his simple, honest belief of "safeguarding the money of others as if it were your own". From their chief European office, located in the heart of the City of London, Stifel, a full-service middle-market investment bank, acts as a corporate broker to 69 clients. Eithne O'Leary, president of Stifel Nicolaus Europe, here discusses their journey and successes.

Eithne O'Leary, president of Stifel Nicolaus Europe

AT A GLANCE
STIFEL

- President of Stifel Nicolaus Europe: Eithne O'Leary
- Founded in 1890
- Based in the City of London
- Services: Full-service investment banking
- No. of employees: 270
- No. of clients: 69
- Herman Charles Stifel's father founded the St Louis Ethical Society
- www.stifel.com

Ambitions and trust

Over the last decade, banking has done precious little to help its own reputation. It's a mark of the current levels of trust in our industry that many will be surprised to find me quoting the second-century emperor Marcus Aurelius, who once wrote that "a man's worth is no greater than the worth of his ambitions". For a woman like me, things are no different.

There is no doubt that, as a bank and a sector, our collective ambition must be to perform our vital role in society in making strong economies better. The crash of 2008 has left us, ten years on, with much still to be done. Fewer than one in three British consumers trust their bank, and only 37 per cent would trust a banker. This places bankers sixth from bottom, in a list of 24 professions. It's there in fact and it's there in fiction: in novels banking is portrayed by the likes of Sherman McCoy from *Bonfire of the Vanities* or the deeply unattractive Roger Yount from John Lanchester's *Capital*. The standing of our industry has declined, and, now, we lose many of the brightest prospects entering the world of work to other sectors, such as technology.

I couldn't disagree more with this preconception. Banking remains a great profession: hugely interesting, fast-changing, challenging and filled with drama as it helps companies realise their dreams and find success in an increasingly competitive world.

Midwestern values

In our global operations, these have been exemplified in all the good things that phrase implies. We are solid, realistic, pragmatic and plain-dealing. Perhaps less afflicted by the excesses of Wall Street, in 2014, we entered the British market when we acquired Oriel Securities.

There can be no question of the vital importance of what we bankers do for a living. As the esteemed *Financial Times* commentator Martin Wolf once wrote: "Banking is virtually the only business able to devastate entire economies." At Stifel, we acknowledge that with such power, there also comes a great deal of responsibility; that now includes defending markets, the private sector and even capitalism itself.

I tend to agree with the economist Roger Bootle who wrote, just after 2008: "What is needed now is not a rejection of capitalism, but, rather, a radical reform of some of its institutions and practices. In a way, this is nothing new. What we now think of as capitalism did not emerge fully-formed in an act of creation, but rather evolved. So why should it have stopped its process of evolution now?"

Uncertain terrain and navigating it

The times in which we currently live are indeed both exceptional and uncertain. An old order is giving way to the new. Investment banks who attempt to impose their world view on clients are going to find their days numbered. Never has flexibility and sound judgement mattered more, especially as we enter what is likely to be the end of an accommodating credit cycle. This, combined with the continuing uncertainty surrounding exactly how the Brexit process will pan out for the UK's vital financial services industry, means being on one's guard is so critical. Even if London were initially to lose a "mere" 2.5 per cent of its business, that figure, when compounded over five years, would look quite dismal.

We pride ourselves on providing relevant wisdom through agnostic advice. We understand the world as it is, not as it once was, and we see nothing in black and white.

There are no hard and fast solutions to anything – "cookie-cutter" people or advice are not welcome. Our primary aim must always be to understand the companies that we serve, and the sectors in which they operate. We tell clients what they need to hear, which is not always what they necessarily want to hear. We excel in devising hybrid solutions that are tailored and specialised to the precise needs of our clients.

We would contend, with due modesty, that this approach is generating positive results. During the first quarter of 2018, we were the leading capital raiser for our clients in London. Our deals, which raised a combined total of £6.9 billion, were just under twice the value of the mighty Goldman Sachs'. For comparison, they employ around 6,500 people in the UK. We employ 270.

Change and define your future

Our people are strongly encouraged to share, not hoard, knowledge. The right kind of teamwork, when it comes to deals and transactions, must always include a proper willingness to explain one's thinking. The self-centred bonus culture of banking can lead to perverse outcomes, and my senior colleagues and I share a distaste for Master of the Universe-style histrionics.

This is why we are pleased and encouraged by the fact that of our relatively small graduate intake this year of six young people, three are women. We would like that 50/50 split to come about eventually at all levels of our organisation, but when I look around me at senior management meetings and see 11 men and not another female, I know I have a way to go. The ambitious, however, as I'm sure Marcus Aurelius would concede, do have to start somewhere.

"Investment banks who attempt to impose their world view on clients are going to find their days numbered"

Wise Investment

Alexandra Rae, CEO

AT A GLANCE
WISE INVESTMENT

- CEO: Alexandra Rae
- Established in 1992
- Based in Chipping Norton, Oxfordshire
- No. of employees: 33
- We manage around £300 million for our clients, who span the UK
- www.wiseinvestment.co.uk

> "We look after our clients for the long term so that they have the freedom to do the things that interest them"

Based in rural Oxfordshire, having recently celebrated their 25th anniversary, Wise Investment is a company looking after private individuals by offering a full financial planning and investment management service. For them, the big picture must always be in sight, because most of their clients are long-term. Indeed, the majority have been catered to by Wise for many years. Equally long-term is their investment horizon and strategy. What follows is CEO Alexandra Rae's word on the matter.

Who we are

I joined Wise Investment as an administrator in the year 2000 when there were six of us in the company. In many ways, we are the same business as then, but it's also true to say that a lot has changed in the meantime, within both Wise and the wider industry. I had the privilege of being asked to take on the role of CEO around two years ago, having previously worked in various roles within the business.

We are part of the Oak Investment Partnership, which includes the fund management businesses Evenlode and Wise Funds. Our founder, Tony Yarrow, was looking at options for succession planning some years ago. Remaining independent in the sense of ownership was a key consideration, as we've always felt this is the best way forward for the people working here as well as our clients. It was decided that becoming an employee-owned business was the most attractive option, and five years ago this became a reality.

Under our new structure, our shareholders ("partners" as we call them) are all the people who work in the business. This is a powerful model in terms of engagement from staff as well as that of accountability. The people who work at Wise Investment know that it is the decisions we make that will shape the future of the business. And this in turn means that our clients know that the people they deal with are the people who are accountable and responsible for the business.

We and the other businesses in the Oak Investment Partnership are owned under an employee benefit trust. This is the "John Lewis model" and is an unusual ownership structure for any business, but particularly so for a financial services company. However, awareness of this form of ownership is increasing with the support of government legislation as well as bodies such as the Employee Ownership Association. Employee ownership is not a fit-all model, but it is certainly something that more financial services companies should consider, especially those where owners are considering what their succession plan might be.

The path ahead

We've grown steadily over the last 25 years, all through referrals from existing clients rather than any active marketing. We continue to believe this is a high-quality way to grow the business, as it functions as proxy feedback on how well we're treating our clients. However, we're now moving ahead with a plan to grow the business in a more deliberate manner and are starting to consider how we market our business and services going forward.

The main reason we are considering growing the business at a faster rate is that we recognise the necessity of a scalable business and of being a size where we have enough people to deal with areas such as compliance and IT, particularly in the context of increasing regulation. We also need a dedicated management team to complement the team of financial planners and advice support staff.

Attracting and retaining people in the business is key for us as well as for other smaller financial services companies. Having consistency in staff is something that is truly valued by our clients. Investing in our staff is therefore key to our business. We want good people to be attracted to coming to work here and we work hard to ensure that existing people stay.

The younger generation of potential employees and clients are also attracted by companies that are about more than just a service or product. They want to know that the business that deals with their financial future also has an ethos that aligns with their own. Having an employee-ownership structure is valued by our clients and staff. I think it will become increasingly valued as the younger generation become our staff and clients.

Our working environment

We're based in the countryside and plan to remain here. A few of our recent senior recruits have come here having previously worked in London, with a view to striking a better work-life balance. Attracting people in specialised roles therefore has not been as difficult as we anticipated. Being out here overlooking fields from our office window and taking our office dog, Griff, for a walk at lunchtime means we have the space to think.

We offer a generous benefits package including life insurance, income protection, pension, volunteer days and a generous training allowance for everyone in the business. We are keen to develop the people who work here, and even though the company is relatively small, many people (including myself) have moved through several roles.

Diversity among the people who work here is also key. As a younger female CEO it is very obvious that I stand out and this is something that I strongly feel needs to change. The financial services industry and its clients would benefit from having a more diverse workforce in terms of gender, age, ethnicity and background.

We also offer a flexible working environment and enhanced policies for maternity and paternity leave. In fact, we offer the same enhanced policy to both mothers and fathers. This means we're giving the same opportunities to males and females in the business, which should encourage a more equal workforce in the longer term. A lot of the things we have implemented are not expensive, but they nevertheless make a big long-term difference in terms of staff retention.

Openness

Another area that I think is particularly important to us as an employee-owned business is openness with regards to our future business planning and the financials. We discuss business planning openly and everyone in the business is encouraged to think about the future strategic direction of the business. This transparency with our financials entails a monthly company meeting to discuss the business plan and budget in relation to the accounts.

At the end of the day we operate in the same way as most other businesses. We have a board of directors and a management team, and decisions are ultimately made in the same way as other businesses would make them. However, being employee-owned means we have our shareholders within the business and their input is invaluable.

Being employee-owned means our interests are aligned with those of our clients

> "The people who work at Wise Investment know that it is the decisions we make that will shape the future of the business"

Stamford Associates

Nathan Gelber, chief investment officer

Whether running a business or managing a pension scheme, cash flow matters. However, within the defined benefit pensions industry there is an overbearing focus on risk measures linked to the future "value" of member benefit payments, rather than the risks associated with actually delivering the cash flows when they are due. Stamford Associates believes this creates a distorted picture of the challenges facing pension schemes, raising greater concerns than are generally warranted over their ability to deliver member benefit promises. The following article, authored by head of fiduciary management advisory, Carl Hitchman, gives an exposition of the challenges faced by this sector, and how Stamford Associates seeks to surmount them.

AT A GLANCE
STAMFORD ASSOCIATES

- CIO: Nathan Gelber
- Established in the mid-1980s
- Based on Old Bond Street, London
- Services: Investment advice for institutional clients
- No. of employees: 35
- Circa £65 billion under advice as of March 31, 2018
- Distinctive active investment approach with a focus on absolute returns, leveraging the skills of in-house psychologists
- www.stamfordassociates.com

Ensuring the right goals are pursued

Our goal since the inception of our firm more than 30 years ago has been to assist clients in generating attractive long-term investment results that are consistent with their investment objectives. Key to this is to avoid the permanent impairment of capital. While this may seem obvious to most people, unfortunately our industry has an insatiable appetite for arbitrary benchmarks that are used to assess whether or not an investment has been successful. Outperforming a benchmark is often viewed as a triumph, even if the actual return is negative, and this can influence investment behaviour in such a way that may not be in the long-term best interests of pension schemes.

This focus on benchmarks is also reflected in how a pension scheme's financial health is assessed; typically comparing the performance of its assets against a liability benchmark that, broadly speaking, represents the cost of securing future member benefits with an insurance company. Trustees typically look to generate an investment return in excess of this benchmark, often with the aim of closing the gap between the value of the assets held and that needed to insure the promised benefits. Instead of focusing on the ability of the scheme to pay pensions as and when they fall due, funding and investment decisions are often driven by managing the risk of changes in the cost of this insurance.

The challenge for trustees is that they have been chasing a moving target. While investment techniques are available to mitigate this risk and asset returns have generally been strong, the cost of insuring member benefits has for many proved prohibitive. Indeed, figures provided by the Pension Protection Fund (The Purple Book, 2017) indicate the aggregate deficit for schemes in deficit relative to the cost of insurance increased by over 40 per cent between 2008 and 2017. Unfortunately, such sensational headlines can influence professional advice to trustees and, consequently, their investment behaviour.

However, when you consider the future rates of return required by many pension schemes to deliver member benefits over their lifetime, they can appear quite modest by historical standards due to the strong investment performance achieved over recent years and the amount of deficit contributions paid by many sponsoring employers.

We fear the way in which financial health metrics have been communicated may have created an unbalanced picture and had a bearing on the closure of a number of schemes. While, alas, it may be too late to reverse these decisions, we believe an investment approach that aims to deliver the required absolute returns by when they are needed will give all stakeholders greater confidence that member benefits will be paid in full. Indeed, with more and more schemes turning cash flow negative, it becomes increasingly important to manage the risk of disinvesting assets at an inappropriate time.

Identifying a solution

During 2017 we undertook a detailed review of the challenges facing trustees and their corporate sponsors. The result is our new fiduciary management advisory (FMA) proposition that we believe will effectively address the investment strategy challenges discussed above. Our starting point is the pension scheme cash flows. We aim to identify suitable asset classes for the time horizon relevant to each net outflow and, within those asset classes, identify talented investment managers who we expect to deliver the required returns by the necessary time.

Our FMA approach is built upon the foundations that have seen our assets under advice grow to circa £65 billion (as at 31 March 2018). We are firm believers in active management for most asset classes and that individuals, not institutions, make investment decisions. Our manager selection and ongoing monitoring process reflect these beliefs in a very distinctive way. Alongside our detailed investment and operational scrutiny of asset managers, we also incorporate considered assessments from our in-house psychologists on the behaviours and cognitive biases within the decision-making processes of the portfolio managers. We believe this yields materially deeper insights and acumen than could otherwise be achieved.

Investment success relies not only on good ideas but also on having a robust governance structure in place. A distinguishing feature of our services is the oversight of many of our manager selection and portfolio construction recommendations by an external independent investment committee. For our FMA proposition this governance structure creates a framework that allows trustees to focus on investment strategy issues and facilitates the delegation of many investment implementation and operational issues that can "clog up" trustee agendas.

The recent policy paper from the Department for Work and Pensions entitled "Protecting Defined Benefit Pension Schemes" and the ongoing review by the Competition & Markets Authority of investment consultants and fiduciary managers highlights much for the pension industry to consider. Underlying all of this is the delivery of member benefit promises and we believe that an investment strategy designed specifically with a scheme's cash flows in mind will go a long way in achieving this.

Professor Adrian Furnham and Elaine Tyler, psychologists

"Psychology – exploiting the silent "p" in investment. Our work is informed by organisational and personality psychology as well as behavioural economics"

Professor Adrian Furnham, principal, behavioural psychology at Stamford Associates

Carl Hitchman, head of fiduciary management advisory

Opus Nebula

Andrew Sherlock and Shawn Obery, founding directors

Effective and efficient client reporting is continuing to emerge as a key tool for maintaining and increasing client business. Opus Nebula, formed in 2014 and based in the City, offer a sole solution: Reporting as a Service. It reinvents how investment management firms undertake this critical function. Enabled by recent technological leaps, it allows investment firms to benefit from significantly reduced implementation timeframes, lower cost, reduced operational risk and improved reporting. Lower barriers to entry, higher quality and greater flexibility and scale, coupled with fully automated reporting processes, allow them to bring world-class reporting to a broader spectrum of investment firms. Andrew Sherlock, one of Opus Nebula's founding directors, wonders if it is a solution that will become the de-facto standard in time.

AT A GLANCE
OPUS NEBULA

- Founding directors: Andrew Sherlock and Shawn Obery
- Established in 2014
- Based in the City of London
- Services: Lean, efficient client servicing and reporting solutions
- No. of employees: Fewer than 20
- Pay-per-use business model
- 100 per cent paperless
- Entirely cloud-based solutions provided for all firms
- www.opus-nebula.com

Often, we read about technology solving a problem that doesn't yet exist. In this case, however, the technology definitively resolves the challenges emerging from the next generation of client reporting needs.

I have lived through a number of similar technology-led transitions, moving from manually prepared and hand-typed schedules to an era of in-house tailor-made reporting solutions. It was not until the turn of the millennium that the need for investment firms to individually build their own systems was finally negated. Each evolutionary step provides the following benefit over any predecessor system:

- Reduced total cost of ownership
- Improved operational efficiency and productivity
- Improved client reporting and client servicing capability
- Greater scale

Our solution is the next step on this path, underpinned by the core systems and expertise that have come before. Coupled with cloud technology and online delivery, the solution we can deliver becomes extremely compelling.

With each step forwards, the benefits of the new solution are increased, and the hurdles to adoption lowered. With Reporting as a Service, the high levels of reporting flexibility, automation and scalability become available and affordable to investment firms of all sizes, not just to those with deep pockets.

Reduced costs

Our solution minimises initial set-up costs; the core platform is already built and only requires configuration to meet individual client needs. The entire system is securely hosted in the cloud, so there is no technical infrastructure required for the client. The multi-tenant structure of the system maximises operational efficiency, manages risk and provides appropriate separation and segregation of data. Robust interfaces and powerful data loaders are pre-built and configured for each firm's data sources, and automatically load the data into our specialist reporting data mart.

Data validation checks are configured to ensure data quality and completeness. Additionally, we have templates that create reports with the precise content, layout and branding of each client. Finally, our automated distribution system ensures that each completed report reaches the correct recipient. This entire end-to-end process is implemented with maximum efficiency and minimum cost.

On-boarding typically takes between four and eight weeks, rather than the six to twelve-plus months normally required for an equivalent in-house build. The set-up costs are similarly scaled and significantly more affordable to all, including smaller investment firms who may not otherwise be able to access such a solution.

Ongoing report production costs thus benefit from the high level of automation provided by the system and the flexible, cost-effective nature of the cloud. It becomes far more efficient over the traditionally high fixed costs of an in-house model.

Thanks to these efficiencies, we are able to offer a pay-per-use model regardless of whether the business is producing a handful of reports each period, or tens of thousands of reports per year. We can ensure our solutions are affordable for any organisation that might require them.

Improved efficiency and productivity

Many firms continue to operate with a hybrid reporting model: this sees automated processes supplemented with often arduous or time-consuming manual procedures. Reporting as a Service automates the end-to-end process while the workflow processes enforce business best practice.

The automated audit trail that our system generates keeps track of how each individual element has been created, reviewed, authorised and distributed. This is a key element in satisfying regulatory demands and reporting controls.

Improved client reporting and client servicing

Our solution allows the investment firms' own teams to manage and control the reporting process, while delivering scale and capacity with improved quality and dispatch timeliness. The time firms gain allows them to more effectively service clients rather than sacrificing hours producing reports manually.

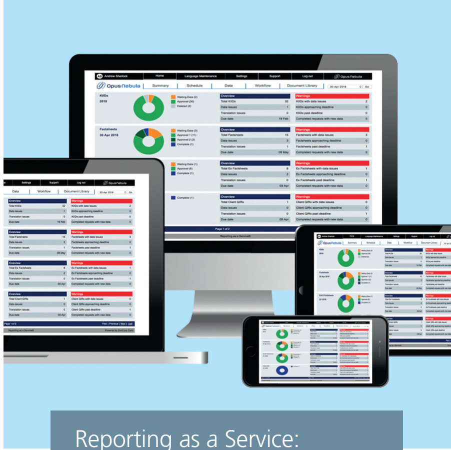
The flexibility of the underlying engine allows for all reporting requirements to be automated. As the industry moves towards more personalised reporting for each individual client, any system used requires report templates to dynamically flex based on a number of underlying factors including the nature of the client, their investments and other relevant data.

Conclusion

Above all else, we believe that investment firms should be doing what they do best – managing money and servicing clients. If their time is spent on various attempts to be a client-reporting IT solution provider, it detracts from what they should be doing, and what should be most profitable for them. The Opus Nebula solution allows firms to exercise best practice, ensure their focus is in the right place and continue to build a business appropriately equipped for the 21st century.

The financial services sector is presently faced with the demand for increasingly sophisticated reporting, combined with a requirement to reduce costs and risk – this combination might have seemed unreachable to many until now. Our solution transforms client reporting within the sector as a result of advances in the application and use of cloud technology.

We intend to remain lean. The nature and model of our business does not require a sprawling base of employees – we are 100 per cent paperless, and thus require no bank of dedicated administrative staff or expensive office space. Opus Nebula will, in the future, remain lean, streamlined and affordable, allowing us to provide the Reporting as a Service solution as an accessible response to many investment firms' needs for years to come.



Reporting as a Service: securely hosted in the cloud and accessible from any device

"Investment firms should focus on managing money and servicing their clients, and not try to be an expert client-reporting IT service provider"

Kingsfleet Wealth

Kingsfleet Wealth is an independent financial advice and wealth management company based just outside Ipswich, Suffolk. Established in 2010, Kingsfleet Wealth has grown through referrals only and has emerged from a financial services environment damaged by the failures that caused the 2007 financial crisis. Managing director Colin Low explains how their professional, trusted and personal approach has been able to regain the trust of the public.

Colin Low, managing director

AT A GLANCE
KINGSFLEET WEALTH

- Managing director: Colin Low
- Established in 2010
- Based in Ipswich, Suffolk
- Services: Independent financial advice and wealth management
- No. of employees: 8
- Firm awarded Chartered Financial Planners accreditation
- Citywire top 100 financial planners
- www.kingsfleetwealth.co.uk

Without public trust, financial services firms have no future. Since the financial crisis of 2007, there has been much collective soul-searching within the financial sector. The transparency, social benefit and ethics that are demonstrated by financial services firms were called into doubt and people began to look at alternative ways to get more out of their money. Some felt that much of the work wealth managers do can be done through "robo-advice" or by simply investing in markets on a more passive basis. Some argue that by taking out the people, the cost falls and there is no change to returns.

Kingsfleet Wealth, however, have been able to gain the trust of investors whose faith in wealth managers and financial planners may have been wavering. Our success and growth has been based upon our three core objectives of being professional, trusted and personal. After four years in the business we asked our existing clients how they would best describe us in three words. To our credit, the most common results were the words that make up our mantra.

By rebuilding the broken bonds between investors and advisers, we have been able to rely on the recommendations of local legal and accountancy firms who saw us as a safe pair of hands for individuals who were at a particularly difficult time in their lives. Technology is unable to replicate the values and care that we take with every client. This is demonstrated by the increasing number of clients that we work with, who clearly share this sentiment.

Professional

Since January 2013 commission is no longer payable on new pension or investment business in the UK, and this has created a sea change in the way in which financial advice and financial planning firms are perceived. Many advisers have continued to study beyond the level 4 (diploma) stage that is now the minimum level required, and Kingsfleet Wealth itself has maintained chartered status due to its founder being a Chartered Financial Planner (level 6) and also, rather unusually, holding a master's degree, MSc, in financial planning.

As this change in focus has been implemented, quality financial advice firms are increasingly regarded as seeing the long-term objectives of their clients as being both the core of their business, and the value in their business. We share this objective and make this clear in the way we deal with our clients.

Trusted

Although we have clients nationwide, we maintain our roots in Suffolk. The business is named after the primary school I attended, and since our inception eight years ago, we have sought to deliver a social benefit as well as a profitable client-focused business.

We do this by supporting educational causes in Suffolk, as well as taking every possible opportunity to provide financial education through the mainstream media.

I am particularly struck by the number of water fountains that we see around our towns and cities, and it is testament to the philanthropic nature of, mainly, 19th-century business people that they wanted to assist those who were unable to afford their own water supply in having fresh, clean drinking water without cost.

We believe it is time for all of us to realise that if our businesses are merely perceived as being self-serving and profit-focused, then we will alienate the very individuals who can be our future customers and clients. While this is not the main motivator behind our philanthropy, it is good to see that potential clients see us valuing more than profit alone.

Personal

Over this last year we have seen a 23 per cent rise in our profits and, increasingly, we have the privilege of new clients coming to us saying that our involvement and support with local, charitable causes makes a difference. We offer a full, independent financial planning and wealth management service to individuals, trusts and charities, and this focus on having a social benefit appears to be resonating with many of our new enquiries.

Within the last year, for example, we have been approached by a prominent local business owner who has asked us to manage his significant pension assets. The primary driver for his request was not on the performance that we would deliver or what we would charge, but rather on his knowledge of how we seek to work in the community. We had met him at a number of local events that we had supported and he wanted to work with people who worked in his community.

Colin meets the Duke of Wessex to discuss the Kingsfleet Community fund

Concluding remarks

Everything we do is borne out by our guiding ethos. This not only helps us attract clients, but also means that clients stay with us and even recommend us to others. I feel we have taken a strong step towards rebuilding trust between advisers and investors and, more broadly, people and the financial services industry.

Going forward, we want to continue our sustainable growth, while always keeping our guiding ethos at the forefront of what we do.

> “Although we have clients nationwide, we maintain our roots in Suffolk”

» CASE STUDY 1

Ethel had recently been widowed and had been working with a lawyer to obtain probate on her late husband’s estate. They had no family and she thought they had no money to speak of either. She kept receiving paperwork which she did not understand, and this was giving her sleepless nights and beginning to affect her eating too.

We established that her late husband had been salting money away for her for over 40 years. We tidied everything up and helped her understand where the money was, simplifying it and tailoring it around her requirements as we did so. Ethel was approximately £400,000 better off than she realised.

» CASE STUDY 2

Sarah and Tom had been farming for as long as Tom could remember, but one day they received an offer to buy their farm outright.

So, how do you move from an income-generating business with the certainty it provides into, essentially, retirement? A significant sum can be realised, but that needs to be converted into a regular, tax-efficient income.

But that is exactly what we did following a referral from their accountants. Our clients hold cash in reserve which we ensure is “topped up” with dividends, bond withdrawals, capital gains, etc. We meet twice a year to ensure everything is working out and that they have everything that they need.

Carbon

Financial services companies often appear to live in fear of setting realistic client expectations. In Gordon Wilson's experience, being open, clear and honest about costs and likely outcomes builds trust, and results in more people wanting to become clients. Sometimes, his company, Carbon Financial, advises clients to spend more, invest less or even give money away. Doing the right thing for the client is also doing the right thing commercially if you want to grow in a strong and sustainable way; his experience, and Carbon's success, is evidence of that.

Gordon Wilson, managing director

AT A GLANCE
CARBON

- » Managing director: Gordon Wilson
- » Established in 2011
- » Offices in London, Edinburgh, Glasgow, Aberdeen and Perth
- » Services: Independent financial advice for private clients, business owners and professionals
- » No. of employees: 40
- » Gold Standard for Independent Financial Advice winner – five years in a row
- » www.carbonfinancial.co.uk

The vision

I founded Carbon with four colleagues in June 2011. Our aim was to create a market-leading financial planning and investment firm. We didn't set out with any grand ambitions for our size or scale; we simply believed that in trying to be the best we could be across all aspects of the business, growth would come as a consequence.

After just four quick years, we were accredited as 2015's Chartered Financial Planners of the Year, which was a hugely satisfying achievement: the title is awarded by the professional body for the financial planning profession, the Personal Finance Society (PFS). As of 2018, I am a director of the PFS, and have been contributing to the improvement of standards, professionalism and trust across the industry.

We have also won the Gold Standard Award for Independent Financial Advice five years in a row, between 2013 and 2017. This award has been a real test for us, as in the very detailed submission for this award we must show demonstrable improvement year-on-year.

Where we are now

We have now grown to a staff of 40 with annual income approaching £5 million. We have offices in London, Edinburgh, Glasgow, Perth and Aberdeen.

Above all else, we are most proud of our people. They are among the most highly qualified professionals in the industry. That is not what makes them different, however; we are in a business grounded in relationships, and it is the way that each member of our team interacts with clients, and each other, that breeds success. They truly care about finding the very best solution for clients, secure in the knowledge that this is also the best solution for the business.

Values matter

We worked towards summarising the values that drive us:

- » To be the best we can be
- » To do the right thing
- » To be free to be different

We feel strongly about openness and transparency, an area where the financial services industry has room for improvement. Our team is supported in this ethos through training and mentorship in doing the right thing.

We have another rule: that there should be no surprises. When offering investment advice, we are clear and open about all risks, costs and likely returns. This might seem like a given; the financial services industry, however, could do better.

Delivering the dream

1. First, name it

Step one for a client coming to Carbon is to create a lifetime financial plan. Most commonly, this plan concentrates on what kind of life they want to lead when the balance shifts from work to enjoying their own rediscovered free time. We encourage clients to live their dreams and, rather than be constrained about what they think they can afford, we ask them to get their bucket lists down on paper.

Once we are clear on what life is going to look like over the next 20 or 30 years, we calculate a cost and work back to the rate of return required, ensuring they can enjoy all they want without ever worrying about running out of money. This plan then informs the strategic advice we provide, advice concerning the best ways to use savings, property, business interests, pensions, legacies and investments. Our aim is to help clients meet all of their goals – not just some of them.

2. Build the road map

In helping people to create a road map to their financial and personal goals, we probably spend more time advising clients to spend and give away money than we do advising them to invest it. This is part of what makes us different.

We can do this because, unlike most of the industry, we don't pay our teams based on the amounts of money invested or fee income received. We employ career financial planners who share our values, and we pay salaries with relatively small bonuses for going the extra mile. Because of this, our advisers are free to advise clients to do nothing if what they have is perfectly fit for purpose. They might even suggest spending more and enjoying life, or giving money to family or charity during their lifetime so they can see others benefit from their generosity.

3. Predicting the future

We are honest about people's ability to predict the future – specifically the ability of fund managers. The investment industry promotes the idea that fund managers can pick shares or that advisers can pick funds that will outpace the market.

Unfortunately, data and academic research works against them. We tell our clients the truth, namely that the chances of a fund manager achieving more than the market return is under one in three. Those odds are very poor. We couldn't possibly proceed on the basis that our client's plan had a one-in-three chance of success with our advice.

4. Keep costs low

We focus on keeping costs low, this being the most accurate predictor of future returns. We invest in areas of the market proven, through academic research, to deliver excellent returns.

What lies ahead

On occasion, our honesty has put Carbon at a commercial disadvantage. We have lost business, especially where the competition chooses to hide costs or exaggerate likely investment returns. It is important, however, to think long term and stay true to our values. Our success to date has demonstrated that our philosophy on openness is working and good business practice brings good clients.

The challenge for the industry is to embrace this wider view. Only when all firms understand the real commercial benefits of only giving advice in the clients' best interests will financial services start to repair the deficit in trust as we provide the vital services that everyone in society needs to plan for, invest in and protect our families' futures.

Mark Christie, corporate director, receiving The Gold Standard Award for Independent Financial Advice from Sir David Amess MP

> “It is important to think long term and stay true to our values”

Carbon supporting sport in the community

Herbert Scott

Founders David Herbert and Kevin Scott at our 20th anniversary celebration

The command and control hierarchical structure prevalent in most financial planning firms perpetuates working in silos, poor information sharing and stops them from becoming businesses that can operate independently of their owners. Herbert Scott believes the industry regulator – the Financial Conduct Authority – should do all it can to facilitate the adoption of a "network" driven culture amongst financial planning firms, where relationships with colleagues, peers and above all clients are encouraged. This will increase the sustainability of the financial planning sector, encourage many more young people into it, and do much to curtail some of the adverse behaviours for which the profession is known. David Herbert, co-founder of Herbert Scott, explains.

AT A GLANCE
HERBERT SCOTT

- » Co-founders: David Herbert and Kevin Scott
- » Founded in 1996
- » Based in Lewes, East Sussex
- » Services: Financial planning and portfolio management for people at or near to retirement
- » No. of employees: 11, targeted to rise to 24 within the next 5 years
- » Turnover: £1 million
- » 2008: Chartered Financial Planners
- » 2016: Entered the New Model Adviser "Top 100"
- » £100 million of funds under management
- » www.herbertscott.co.uk

At Herbert Scott we see our peers as successful professional service firms – mainly solicitors and accountants – not retailers. We are client-centred; we focus on our product – our service – which is to help people understand their relationship with money and empower them to live their lives. This is in contrast to the bulk of our competition which still sees the pension or the mortgage as the "product". Despite the banning of commission, financial advisers often still see themselves as retailers of investments, simply distributing third party products.

Culture eats strategy for breakfast

We have given a lot of thought to our business intent – the 'why are we here' conversation. We see that many of our competitors are simply concerned with income now; maximising profit by charging too much and failing to invest in the business. Our order of priority is:

1. Culture – a network rather than status driven

2. Equity – investing in the business to increase the capital value and improve sustainability

3. Income – making sufficient profit now but reinvesting surplus income in the business

4. Control – controlling business leaders are poor delegators and don't train staff to take on responsibility.

It is the work we have done in establishing the right culture for the business that has provided the most rewards. We have established a good set of values: growth; spirit and letter; responsibility; honesty; and commerciality.

- » Growth of the business, and the individuals within it, to achieve sustainability – a business which can run independently of the owners;
- » Operating within the spirit rather than the letter means doing the right thing. It means being flexible and looking for the win-win;
- » Responsibility in this context is focussing on the importance of relationships within the team as well as with clients, our professional network and our community;

» Honesty is much more than telling the truth. There is too much justifying and defending going on in traditional, status driven organisations. This is inefficient and leads to procrastination.

» Commerciality means recognising we are a business which needs to be efficient if it is to be profitable without being expensive for our clients.

A network organisation

It is through the development of a network organisation that we envisage ultimately achieving our goal of a sustainable business.

Traditional command and control business structures promote feelings of guilt and shame, encourage working in silos and cause stagnation, as shared thinking is discouraged. The network business model is a flatter management structure and a change in approach to business. We work as a team where clients and opportunities for new business are shared – not 'owned' by individuals. The team, and ultimately our clients, benefit by working and supporting each other.

We have employed a coach to help us develop our interpersonal skills and emotional intelligence and intend to expand this work across the whole team. We have already seen the benefits – not only are we more profitable but it's also more fun to come to work.

Financial life planning

As the Dalai Lama said, "Recognising that your objective is worthy, because it involves other's welfare, or the general well-being of the community, gives you the determination to pursue it".

We help our clients plan their retirement, educate their children, support their families and ensure they provide for care in later life. Cash-flow forecasting is at the core of our service, but it was the inclusion of elements of 'Life Planning' that has enabled us to have far better conversations with clients about their money and develop our service into one that truly empowers our clients to live their lives.

Proficient portfolios

Rather than expose our clients to the higher costs and risks of active investment management, where the emphasis is on beating benchmarks which have no real meaning to our clients, we recognise the benefits of avoiding the urge to speculate and trying to outwit the market.

Instead, driven by the overriding desire to treat our customers fairly, our robust investment process is based upon more than 60 years of empirical research. We embrace diversification and, by eliminating speculation, we reduce risk, uncertainty and costs.

We recruited our investment director, Tracey Payne, from a firm of discretionary managers. She has been instrumental in developing our investment process which we believe has significantly increased our clients' chance of enjoying a successful investment experience.

Business leaders

Education in the financial services industry seems to focus almost entirely on the development of technical knowledge. Of course, we recognise the importance of technical knowledge – Kevin Scott, my co-founder, and I were two of the first Chartered Financial Planners in the UK. Everyone in the team joins the Personal Finance Society embracing 'continuing professional development' rather than seeing it as a tick-box exercise.

It is however the industry's focus on technical ability that we believe held us back in the early years. Our business has thrived ever since we identified the need to be trained how to behave as business leaders.

Courses on business management are an expensive outlay for a small business, especially for those focused on income now rather than culture and equity. Regulatory financial restrictions render financial advisory firms unable to borrow to invest in themselves. Perhaps financial grants should be made available for executive coaching to develop business management skills.

Based in Lewes, the historic county town of East Sussex

» FUTURE LEADERS

We observe that most of our peer group seem to be smaller firms than ourselves; most working with very limited resources, unable or perhaps unwilling to grow. The majority of financial advisers seem to be nearing retirement age and focussed on selling their practices – widening the 'advice gap' further. The purchasers in the main are discretionary 'wealth' managers, eager only to maintain their market share of funds under management, but leading clients to higher risks and costs.

Our legacy planning is based upon organically growing our sustainable business so that younger members of the team can take the helm. We have already recruited five apprentices with two more planned for this year. We believe that with the right culture, support and nurture – they will be our future leaders able to build on the strong foundations we put in place today.

Review of Parliament

A game of Chequers

On Sunday, July 8, Britain was awash with sunshine and optimism. England football fans were preparing for their first world cup semi-final in nearly thirty years, while some Scots were hurriedly buying the chequered shirts and flags of England's opponents, Croatia. And the weather, the hottest summer since the seventies, was keeping everyone in good spirits. In other words, it was the perfect time for a political crisis.

While Gareth Southgate's team spent their Saturday doing battle with Sweden, Theresa May's spent theirs battling each other. Late on Sunday evening, after another day of disagreements, the results of the crucial cabinet meeting at Chequers (the prime minister's grace and favour country residence) began to materialise. The most significant of these was the resignation of David Davis as secretary of state for exiting the European Union.

Mr Davis found himself unable to support a proposal that would see the UK maintain a common rulebook with the EU for all goods. This would mean a co-operative arrangement with EU regulators and very little room for divergence.

The white paper that emerged after the Chequers summit focused on four key areas: economic partnership, security partnership, future areas of cooperation and the frameworks needed to enforce any eventual agreement. It contained details on the "facilitated customs arrangement", whereby the UK would collect tariffs on behalf of the EU.

It called for the end of the free movement of people but laid out plans for EU citizens to come here without visas for "paid work in limited and clearly defined circumstances". As regards benefits and social security, it advocated "reciprocal" arrangements with the EU.

The cabinet gathered at the prime minister's country residence of Chequers in Buckinghamshire for a crunch meeting

A "joint institutional framework" would be established to interpret UK-EU agreements. In the UK, this would be overseen by our courts and in the EU it would be overseen by theirs. Some cases would be referred to the European Court of Justice, though it would be unable to resolve disputes between a UK and an EU court.

The white paper also confirmed that we will exit the European Union at 11 o'clock in the evening on March 29, 2019, which will be midnight central European time.

In her foreword for *The Parliamentary Review*, the prime minister suggests that a Brexit on these terms would mean we "take back control of our laws, money and borders."

In his resignation letter, Mr Davis took a different stance: "In my view the inevitable consequence of the proposed

President Trump's trip to the UK added to the political drama of an already hectic month before the summer recess

policies will be to make the supposed control by Parliament illusory rather than real."

If the Brexit secretary's departure threw the government into a spin, it was nothing compared to what came next. On Monday afternoon, with the ink on Davis' letter not yet dry, Boris Johnson announced that he was following suit. For two years, pundits had speculated about the imminent departures of the Brexit and foreign secretaries. Now they were both gone within 24 hours. In his letter, Mr Johnson said the prime minister was leading the UK into a "semi-Brexit" with the "status of a colony".

Jeremy Hunt, who had just become the longest serving health secretary in history, was chosen to replace him, with culture secretary Matt Hancock moving to the Health Department. Mr Davis was replaced by Dominic Raab. Further resignations included Steve Baker, Maria Caulfield and Ben Bradley.

It was under this cloud that Gareth Southgate's Three Lions took on, and were defeated by, Croatia. After which, from both a sporting and a political point of view, it was fair to say that England had been chastened by chequers.

If Mrs May was in need of a brief reprieve, she was unlikely to get one with Donald Trump arriving for his long-awaited UK visit. Amid huge protests, Mr Trump decided to give an interview with *The Sun*, in which he lambasted Mrs May's Brexit negotiations and suggested that Boris Johnson would make "a great prime minister". This was followed by a characteristic backtrack, where he said he would support whatever stance the "incredible" Mrs May took on Brexit.

No sooner had the president left than Mrs May was back in the bear pit of parliament. On the Monday, her customs bill faced a series of amendments from the pro-Brexit European Research Group, two of which were accepted by the government and each passed with a majority of just three votes.

The first of these called for the UK to refuse to collect duties for the EU unless member states did likewise. The second compelled us to have an independent regime for VAT. Labour MP Stephen Kinnock responded: "By capitulating to their proposals on the Customs and [the] Trade Bill she is accepting that the Chequers deal is now dead in the water."

Two days later, Mr Johnson decided to deliver a resignation speech in the House of Commons, in which, while praising the prime minister for a number of things, he contrasted her Lancaster House speech of January 2017 with what was agreed at Chequers, speaking favourably of the former and less so of the latter.

Shortly before *The Parliamentary Review* went to print, Johnson's former cabinet colleague, the trade secretary Liam Fox said he believed a "no-deal" Brexit was now odds-on. As the following articles demonstrate, parliamentary intransigence makes it incredibly difficult for agreements to be reached. With no clear majority for any one Brexit plan, a "no deal" scenario may well become a reality.

Whatever happens, it's likely that 2019 will see an MP address parliament and compare what was agreed at Chequers with whatever is agreed, or not agreed, with Brussels on March 29 as the central European clock strikes twelve.

The meaning of the meaningful vote

In June, seven months on from his success in attaching a "meaningful vote amendment" to the EU (Withdrawal) Bill in the Commons, the former attorney-general Dominic Grieve was still fighting the same cause on the same bill.

In what proved to be the final round of the long parliamentary battle over the bill, MPs were considering changes made in the Lords, which included a tougher version of the meaningful vote than Mr Grieve's original. In earlier rounds of consideration he had accepted a compromise proposal from the government, only for the consensus around it to break down when Downing Street presented an analysis of what it would mean that seemed far weaker than Mr Grieve had thought.

That in turn prompted the Lords to replace the compromise with a beefed-up version – and this was what MPs, for the second time in a week, were now considering.

David Davis, the then-Brexit Secretary, warned that the Lords amendment could be used by some to frustrate the process of leaving the EU

The issue remained the narrow but potentially crucial question of what leverage MPs would have in the event that either parliament rejected the Brexit deal between the UK and the European Union or no deal was

The EU (Withdrawal) Bill was approved after the government saw off a rebellion

reached at all. Should there be a vote in the Commons to instruct ministers on what to do next?

The day before, peers had voted in favour of plans to give MPs a greater say – a move that David Davis, the then-Brexit secretary, warned could undermine the prime minister's negotiating position because it seemed to foreclose the possibility of Britain walking away with no deal. Mr Davis now offered another compromise that would, he said, ensure that there would be a ministerial statement and a motion to the House of Commons in the event of no deal, but the key point was that his plan would not offer MPs a chance to instruct ministers – because the motion that would be put down would not be amendable.

But Mr Davis added that the procedural details were far less important than the expressed mood of the House of Commons in a moment of crisis, and he warned that the Lords amendment could become a mechanism for frustrating Brexit.

As part of the elaborate legislative dance, Mr Grieve had put down a new amendment. But now a compromise had been offered, he dropped it: "Having finally obtained, with a little more difficulty than I would have wished, the obvious acknowledgement of the sovereignty of this place over the executive, I am prepared to accept the government's difficulty, support them and accept the form of amendment they want."

The government proposal seemed to put the issue into the hands of the Speaker, who, in the event of no deal, would have to decide if a future motion would be amendable. There were attempts to ask the Speaker, John Bercow, what he would do in those circumstances, but he declined to say.

What was not clear to MPs was who was climbing down. Had Mr Grieve allowed ministers a face-saving solution, which gave him what he wanted? Or had he flinched from rebellion and accepted a fig leaf in place of the guarantees he really sought?

Labour's shadow Brexit secretary, Sir Keir Starmer, hoped that MPs would still vote for the Grieve amendment: "Standing back, that looks like common sense. It is unthinkable that any prime minister would seek to force through a course of action that would have significant consequences for many years which the majority in [the House of Commons] did not approve of… the idea that that is how we would achieve an orderly Brexit is for the birds."

In the end, six Conservatives voted for the Grieve amendment, while four Labour MPs defied their party whip and voted with the government. And later that evening, peers accepted the bill – which allowed it to become law.

Parliament approves a third runway at Heathrow airport

Fifty years after the Wilson government set up the Roskill Commission to examine options for London airport expansion, MPs backed a planning document that endorsed a third runway for Heathrow with a resounding majority: 415 votes to 119.

The decision to endorse a national policy statement (NPS) for airports, which supported a third runway, followed an intense 90-minute debate. The result was not really in doubt – Conservative MPs were on a three-line whip, which meant that they were ordered to back the NPS, while Labour MPs, reflecting the considerable differences of view in their party, were given a free vote.

Transport secretary Chris Grayling laid out his case: "All five of London's main airports will be full by the mid-2030s, and Heathrow is full today. We are seeing business leave the UK and go to airports like Frankfurt, Amsterdam and Paris, which have made additional capacity provision... We are losing those connections to other countries, and we are losing the investment that goes around those connections."

He promised that there would be tough environmental conditions: the runway would not be allowed to open if it failed to meet air quality standards. There would be a generous £2.6 billion compensation package for people displaced by the new runway, plus a noise insulation programme for homes and schools.

But there was considerable resistance. Labour's shadow transport secretary, Andy McDonald, warned that the Heathrow expansion would "generate many winners, not least the shareholders of Heathrow Airport Ltd, but it risks making losers of many, including the communities in which thousands of people will lose hundreds of homes." He was interrupted by a Labour colleague, John Spellar, who said that, globally, aviation would grow anyway – the question was whether Britain would share in that growth.

Heathrow airport: MPs vote in favour of expansion

Some of the most wounding criticism came from Conservatives, notably the former transport secretary, Justine Greening, whose Putney constituency is directly under the Heathrow flight path: "I think that the story of Heathrow is a story of broken promises, broken politics and broken economics. Those of us with communities around Heathrow know about Heathrow's broken promises better than anyone else. There has been no action, despite promises, on night flights… I have been at public meetings at which the current Heathrow management has said that the previous promises made by previous managers should never have been made. Regional MPs who are banking on promises from Heathrow should bear that in mind."

Another Conservative, Greg Hands, resigned as trade minister in order to keep his election promise to vote against the Heathrow expansion. He highlighted the environmental impact: "Heathrow already exceeds legal pollution limits, before any single plane has landed at the third runway. Heathrow is seeking to have an extra 28 million passengers visit the airport each year, but somehow without a single extra car journey. Furthermore, Heathrow has not yet identified the future flight paths, so it is impossible to tell who and where will be affected by this big increase in flights. An awful lot of Londoners currently have no idea that they will be overflown by planes every 90 seconds."

The short debate ended up with a majority of 296 in favour of the NPS. In the end, eight Conservative MPs voted against the government and Labour was split almost in half, with slightly more Labour MPs supporting the expansion than opposing it. Their leader, Jeremy Corbyn, was against it. The NPS does not grant final planning permission for the third runway: it sets the policy framework against which planners (and probably the courts) will judge whether the scheme should go ahead.

Tributes to Tessa Jowell in a debate on cancer treatment

Tessa Jowell was hailed as an inspiration during her battle with cancer

When former Labour culture secretary Tessa Jowell was diagnosed with a brain tumour, she launched a personal campaign to highlight the need for better cancer treatment. The result was two emotional debates in the Lords and the Commons, with speeches from her many friends in both houses.

The Commons debate was opened by Labour MP Sarah Jones, who was part of the team working for Lady Jowell on the bid to hold the 2012 Olympics in London. Lady Jowell watched with her family in the under-gallery of the Commons.

Sarah Jones said that her father had died of cancer just three days after she was elected to parliament. She recalled how, as culture secretary, Tessa Jowell had won first the Labour cabinet and then the country over to the idea of hosting the games: "She would go and talk to a group of children about how they would directly benefit, and then she would dash across the country and deliver a wordy lecture to a load of economists about the evidence base for sporting-led regeneration."

Now she had a new cause and had again thrown herself into a campaign for people to live longer lives with cancer, "with exactly the same relentless optimism and total bloody doggedness as she did with the Olympics. When faced with this woman who walks through walls, never gives up and always gets what she wants, we could almost feel sorry for cancer."

There was praise for Lady Jowell from the then health secretary, Jeremy Hunt, who said that she left two great legacies: "her amazing achievements with London 2012 and her amazing campaigning on cancer. It is our privilege to take part in this debate and our duty to act on what she says." This thought was echoed by Steve Brine, the cancer minister, who quoted what he had found the most moving line in her speech in the Lords: "In the end, what gives a life meaning is not only how it is lived, but how it draws to a close… She is giving that line great meaning."

Unusually, the Speaker, John Bercow, intervened from the chair: "As somebody who is living with cancer you have shone a light on a cruel curse and the need for collaborative, resourced and unflagging devotion to the effort to tackle that curse. [Sarah Jones] said that you loved this place. I hope that it is blindingly obvious to you, Tessa, that we love you." In her seat in the gallery, Lady Jowell was visibly moved. She died a few weeks later, on May 18, 2018.

Michael Gove's plans for clean air

In his latest cabinet role as environment secretary, the former Conservative leadership contender Michael Gove has stood out as a radical and innovative minister. While many of his cabinet colleagues have seemed bogged down in Brexit battling, he has produced a series of new initiatives to shape post-Brexit agriculture and to bolster the Conservatives' environmental credentials.

His new consultation document on clean air was the subject of an urgent question from Neil Parish, the Conservative who chairs the environment, food and rural affairs committee. After the government was defeated for a third time in the High Court this year for failing to deal with the problem, Mr Gove took the opportunity to showcase his plans: "Air pollution is the greatest environmental threat to human health in this country and the fourth biggest public health killer, after cancer, obesity and heart disease." The government had allocated £3 billion to reduce harmful emissions of nitrous oxide and was committed to ending the sale of diesel and petrol cars by 2040, taking them off the roads altogether by 2050.

His new strategy outlined steps to reduce the use of the most polluting fuels, better manage the way manures and slurries were used on farmland and cut emissions from agricultural machinery. It also aimed to reduce emissions from wood-burning stoves, which, along with solid fuels, account for more than a third of fine particle pollution – but it did not suggest banning open fires.

Secretary of State for Environment, Food and Rural Affairs Michael Gove, seeks to bring his trademark reforming zeal to his current department

Mr Parish was supportive but thought that more-ambitious action was needed to improve the air in towns and cities. One key issue was the need to reduce the fine particles produced by vehicle tyres and brakes, and he thought that the most effective way to achieve that was to reduce the need for vehicle use by providing more and cleaner public transport. He also wanted petrol and diesel vehicles to be phased out by 2040 – ten years ahead of the government's current target date.

Mr Gove noted that while the UK had repeatedly been found in breach of EU air quality standards, one issue behind that was the inadequacy of the EU's own vehicle emission regulations, as well as the efforts of some motor manufacturers to evade them.

For Labour, Sue Hayman said that the new strategy was weak on cutting roadside pollution and did not meet the urgency of the public health emergency. She wanted a network of mandatory clean air zones to bring nitrous oxide levels down to legal limits, and she accused Mr Gove of shunting responsibility for policing air quality on to "cash-strapped" local councils. She added that it was essential that the UK have an effective environmental watchdog in place after Brexit to ensure that the promised improvements are delivered.

Conservative Robert Halfon, warned that Mr Gove was already seen as "a friend, rightly of the bees and the fishes, but also needs to be a friend to hard-pressed motorists."

Lessons from the collapse of Carillion

The Carillion collapse exposed government outsourcing flaws

The government was accused of failing to tackle the problems at the public sector mega-contractor Carillion as the company headed for collapse. The chair of the Commons' powerful financial watchdog, the public accounts committee, Labour's Meg Hillier, told MPs that a confidential risk assessment of the company had shown rising concern about the finances of the company, which provided key public services, including school maintenance and prison management.

The collapse cost thousands of jobs and left the government to pick up those functions. The government's risk assessments were released to the public accounts committee and, after holding hearings on them, Meg Hillier delivered a statement giving her committee's verdict.

"The Carillion papers identify clear and compelling problems with the business in the months leading to its collapse," she told the House. "… although Carillion had been rated as 'amber', owing to its performance against contracts with the Ministry of Defence and the Ministry of Justice, it was not until after Carillion issued a profit warning in July last year that the government downgraded it to 'red'. It therefore appears that the government was not aware of Carillion's financial distress until that point. In November last year, officials recommended a provisional 'black' rating for Carillion – that information has come directly from the papers that we have published – but following representations from the company, the Cabinet Office did not confirm that designation. Carillion collapsed less than two months later."

The committee now planned to hold more hearings on the relationship between the government and strategic suppliers because, she said, some big contractors were now "too big to fail". Carillion itself had continued to believe that it would receive a government bailout right up to the moment of collapse in January.

Legalising abortion in Northern Ireland

The referendum vote of the Irish Republic in June to liberalise its abortion laws produced immediate Commons pressure for a similar change in Northern Ireland, where abortions are only permitted if the woman's life or health is at risk.

But the issue was fraught with political and constitutional difficulties for Theresa May's government. First, the Northern Ireland Assembly, which is responsible for justice there, had been suspended since 2017 because of a breakdown of trust between its main parties. Second, the Conservatives depended on the support of the ten Democratic Unionist Party (DUP) MPs for their precarious Commons majority – and the DUP did not want a change in the law.

Against that, when the Labour MP Stella Creasy sought an emergency debate on the issue, she was supported across the House, including by most Conservative MPs. The result was an emotional debate containing some very personal speeches. Stella Creasy proposed a precise legal change to the 1861 Offences Against the Person Act: the law that is the basis of the abortion ban.

The DUP's Emma Little-Pengelly retorted that what was being proposed would create "one of the most liberal abortion regimes anywhere in the world" in Northern Ireland – and she said any such decision should be for the Northern Ireland Assembly.

Another DUP MP, Sammy Wilson, insisted that the legislation in Northern Ireland was balanced because it protected the rights of both the woman and the unborn child, adding: "100,000 people are alive in Northern Ireland today who would otherwise have been killed before they were even born."

The government has been urged to act to liberalise Northern Ireland's abortion laws

Northern Ireland secretary Karen Bradley said that she personally supported reform, but that "abortion has been a devolved matter in Northern Ireland since 1921, and it would not be appropriate for Westminster to seek to impose its will or to be the arbiter of an issue that has long been devolved".

And Labour MP Jess Phillips said that having had an abortion did not make her or other women criminals. And she quoted the experiences of some Northern Irish women: "It was Christmas Eve. I was with friends at a party and stepped outside for a breath of air and I was raped… My mum had to book flights and booked me into a clinic. This all took money and I was from a working-class family. We borrowed what we could and I left for London. Alone after I'd been raped. I'd never travelled anywhere on my own."

At the end of the debate, MPs backed Stella Creasy's call for change, but the vote will not be binding on the government. It was clear, however, that pressure was building for the UK parliament to act if the politicians of Northern Ireland did not.

The Salisbury poisoning

Officers in hazardous chemical suits in Salisbury

In March, the prime minister issued a grave warning to the Russian government after a double agent and his daughter, now resident in Britain, were poisoned with a military-grade nerve agent at their home in Salisbury.

Sergei Skripal, a Russian defector to Britain, and his daughter Yulia were exposed to Novichok, a nerve agent developed by Russia. Theresa May gave Russia 24 hours to provide answers about the incident or face sanctions from Britain.

In a statement to the Commons, the prime minister praised the professionalism of the emergency services and armed forces in responding to the incident. She said that the chemical had been identified by "world-leading" experts at the Defence Science and Technology Laboratory at Porton Down and that, given the Russian government's record of state-sponsored assassinations, ministers had concluded that it was "highly likely" that Russia was responsible.

"There are, therefore, only two plausible explanations for what happened in Salisbury on March 4," she added. "Either this was a direct act by the Russian state against our country or the Russian government lost control of its potentially catastrophically damaging nerve agent and allowed it to get into the hands of others."

Labour leader Jeremy Corbyn said that the events in Salisbury were "shocking" but added a cautious note: "We need to see both the evidence and a full account from the Russian authorities in the light of the emerging evidence to which the prime minister referred… we need to continue seeking a robust dialogue with Russia on all the issues – both domestic and international – currently dividing our countries, rather than simply cutting off contact and letting the tensions and divisions get worse and, potentially, even more dangerous."

He also called on the prime minister to toughen up the Sanctions and Anti-Money Laundering Bill, then before MPs, and to accept Labour proposals to add so-called "Magnitsky powers", which would allow direct financial sanctions against individuals implicated in human rights abuses. He faced heckling from the Conservative benches when he said that there had been more than £800,000 of donations to the Conservative Party from Russian oligarchs and their associates.

Mr Corbyn's response produced a stream of criticism from the Labour MPs behind him. One, John Woodcock, said that UK national security would be at risk if the country were led by anyone who did not understand the gravity of the Russian threat.

The Scottish National Party's Westminster leader, Ian Blackford, demanded a robust response: "firm and strong action must be taken to send a clear message to the Kremlin that we will not accept Russian interference in our democracy or in our way of life."

In July, two additional UK citizens were poisoned with the same nerve agent. Dawn Sturgess, 44, died on Sunday 8th while Charlie Rowley, 45, was in a serious condition but was discharged on Monday 20th. Police have identified Sturgess' perfume bottle as the container that was used to house the agent. They also believe they have identified the suspected perpetrators of the attack but, as *The Parliamentary Review* goes to print, no arrests have yet been made.

Airstrikes on Syria

When the prime minister ordered British forces to take part in airstrikes against chemical weapons held by the Assad regime in Syria, she came to the Commons after the Easter recess to defend her decision – and ran into criticism for not seeking parliamentary approval in advance.

She said that the attack was a response to the use of chemical weapons by pro-Assad forces, which had left up to 75 people dead. She said that the images of the suffering were "utterly haunting: innocent families seeking shelter in underground bunkers found dead with foam in their mouths, burns to their eyes and their bodies surrounded by a chlorine-like odour, and children gasping for their lives as chemicals choked their lungs." Such an atrocity was "a stain on our humanity," she added.

She did not believe that evidence on the scale available could be falsified, and she said that the Syrian regime was seeking to cover up the atrocity by searching refugees, in case they tried to smuggle out samples of the chemicals that had been used – it was clear that only President Assad's regime had the capability to carry out such an attack.

The prime minister also defended the legality of the UK action: Russia had blocked a UN resolution to establish an independent investigation into the latest attack. She said that to argue that the UK could only act with a UN resolution was to accept a Russian veto on British foreign policy. She said that military action was justified

People marching against the Assad regime in London

to prevent further gas attacks – there was no alternative course of action and the attacks were necessary and proportionate.

Labour leader Jeremy Corbyn responded that the prime minister was accountable to parliament, not to the US president, and added that Britain needed a War Powers Act to transform what he called a "now broken convention" into a legal obligation.

There were angry shouts when he said that the UK action was legally questionable, and he questioned whether the government could be sure that the chemical attack was the work of the Assad regime. He called for a diplomatic solution to end the war and the refugee crisis it had caused.

Senior Conservative Kenneth Clark backed the government's action, but he queried the lack of parliamentary debate before the event, given that President Trump had announced his intention to strike against the Assad regime well in advance.

The Scottish National Party's Westminster leader, Ian Blackford, reminded Mrs May that she led a minority government, adding: "It was perfectly possible for House to have been recalled in advance of the Saturday morning airstrikes."

Lib Dem leader Sir Vince Cable agreed with this and asked if there might be more airstrikes, in light of President Trump's comment that it was "mission accomplished".

But the prime minister would not be drawn on that.

The last word

This edition of *The Parliamentary Review* has overseen yet another extraordinary year in British politics. Cabinet ministers have departed, Commons debates have raged long into the night and, at times, it has felt like little has been achieved. From our standpoint, it is clear that this has not been caused by a lack of trying. The members of parliament with whom we have crossed paths, from all parties and none, have each been working incredibly hard to further what they feel is in the best interests of the constituency, and the country, they serve.

And, though the political realm has been a source of frustration for many, it is clear, as Andrew Neil observes in the opening pages of this publication, that those operating at the micro level of the British economy are not only working tirelessly, they are also achieving great things. The articles from this year's Review representatives exemplify this.

A country is not a perfect blueprint put into action: it is the sum of millions of autonomous parts. Individuals who motivate their staff, inspire their students or simply do their job to the best standard they can muster. And, though there are always adjustments and improvements to be made, it is our conviction that British parts are in fine working order.

Lord Pickles addresses the 2017 Parliamentary Review gala in the House of Commons

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