

**CIPF Podcast Series – International Perspectives  
No. 1 – Best Practices for Compensation Funds**

Transcript<sup>1</sup>

Moderator: Sharon Sparkes

Speaker: Karen Gibbons

Announcer:

Sharon Sparkes will be the moderator of today's podcast. Sharon is a board member of the Canadian Investor Protection Fund or CIPF. She has more than 30 years' experience as an executive in both the private and public sectors, primarily in the consumer packaged goods industry. A chartered professional accountant, Sharon has provided financial and operational leadership for different sectors of industry. Most recently, Sharon served as interim President and CEO of the Newfoundland and Labrador Liquor Corporation from 2018 to 2020, following eight years as that organization's Senior Vice President and Chief Financial Officer. Sharon is currently an independent corporate director on the boards of Purolator Holdings Ltd. and Provident 10.

Sharon Sparkes:

Hello and welcome to the CIPF Podcast Series on “International Perspectives.” I'm Sharon Sparkes and it is my pleasure to be your host today. I am here today with Karen Gibbons, Head of International Liaison and Research at U.K.'s Financial Services Compensation Scheme, or FSCS for short. Like CIPF, FSCS protects investors when certain types of financial firms fail.

Sharon Sparkes:

Welcome Karen, we're so delighted to have you here today with us.

Karen Gibbons:

Thanks for having me. It's lovely to be here.

Sharon Sparkes:

In our discussion today, we will hear about some in-depth work done by Karen and her colleagues on issues that investor compensation funds should consider to ensure operational readiness and resilience. Drawing on a paper recently authored by Karen and her colleagues, we will discuss areas such as end-to-end process mapping, regular testing, and the value of strong relationships with other safety net participants.

Sharon Sparkes:

To begin, let's start with our first question. Karen, please describe for our listeners the role of FSCS and your areas of focus.

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<sup>1</sup> This transcript has been edited for clarity and ease of reading. This podcast is for informational purposes only and is not intended to constitute advice of any kind.

Karen Gibbons:

Thank you. FSCS is the U.K.'s statutory compensation scheme for customers of failed financial services firms. FSCS covers not just investment provision, but also intermediation - that is advice given by a financial advisor about investments. The coverage for investment advice claims makes FSCS pretty unique in regards to the scope of investment coverage. FSCS also covers deposits, insurance, both general and life and pension, and home finance.

Sharon Sparkes:

Would you tell our listeners a little bit about your role at FSCS?

Karen Gibbons:

Yes, certainly. As you mentioned, I am the Head of International Liaison and Research at the FSCS, and as part of my role, I am a member of the Investor Compensation Scheme Working Group of the European Forum of Deposit Insurers. So that's known as the EFDI ICS Working Group. This working group was developed as a way for members to exchange experience and develop best practices for investor compensation schemes.

Sharon Sparkes:

Thank you for that background, Karen. We have been living and working in a pandemic environment now for over two years, with COVID-19 really taking hold here in North America in March 2020, and in Europe a few months earlier. Karen, I would be very interested in hearing about how FSCS fared during this time and if you had to navigate any particular challenges or hurdles during the pandemic?

Karen Gibbons:

I am proud to say that FSCS did not lose a day of operation as a result of the pandemic. We went into lockdown pretty early in the U.K., March 2020, and from that point until September 2021, all FSCS staff, and those at our outsourcers, have worked remotely. From September, we have begun returning to the office on what we refer to as a 60/40 basis, with the majority of staff working two days in the office and the rest from home. I have to say, there's an update to that, which is from last week, we are now working remotely again, as there's a rise in COVID in the U.K. Due to the outstanding work of our teams within the FSCS, we have continued to process claims on a daily basis and have seen an increased customer satisfaction score, 84%, which was up 5% from 2019/20.

Sharon Sparkes:

That is just so interesting. Congratulations to you and your colleagues at FSCS for your hard work and your ability to successfully adapt to a new way of working last year, and especially for achieving higher customer satisfaction scores during the pandemic than before. That is truly remarkable.

Karen, you led the drafting of a paper published in 2021 on issues that investor compensation funds or schemes should consider to ensure operational readiness and resilience. This paper was published as a non-binding guidance paper of the European Forum of Deposit Insurers, titled

‘Operational Readiness and Resilience Guidelines for EFDI Investor Compensation Schemes.’ I know our listeners would be very interested in hearing more about your research and this paper.

What motivated you to do this work and what are three key elements of the paper that you would like to discuss today with our listeners?

Karen Gibbons:

The motivation for the work was to ensure that members of the EFDI Investor Compensation Scheme (ICS) Working Group, some of whom have little practical experience with investment firm failures, would know the building blocks that an ICS needs to have in place, in order to be ready to deal with a member firm failure.

Sharon Sparkes:

Thank you, Karen. In the paper, you talk about operational readiness and resilience. Would you explain the difference between these two terms?

Karen Gibbons:

Certainly. When we say operational readiness, we are referring to the capability of an investment compensation scheme to efficiently operate and maintain their systems and procedures.

Operational resilience refers to the ability of an organization to identify and protect itself, as much as possible, from potential threats and possible failures, respond and adapt to, as well as recover and learn from disruptive events. For our session today, I'd like to talk more about three elements of our research paper.

Number one, end-to-end process mapping, and by that, I mean identifying all of the steps needed to achieve a payout to eligible investors of a failed financial firm. Number two, the importance of relationships with other safety net participants, and lastly number three, testing of the operational readiness and resilience plans.

Sharon Sparkes:

Picking up on the first element you referred to Karen, doing an end-to-end process mapping exercise, would you elaborate on this point?

Karen Gibbons:

In order to have an effective operational readiness and resilience plan, an ICS must have a clear overview of all of the steps it will need to take to achieve payout to eligible investors. To achieve this, the paper recommends that an ICS should undertake to map its end-to-end process, detailing all of the processes it must undertake to successfully deal with an investment firm failure. These include the claims process, investor data, funding, payout, and communication plans. For an example, if an ICS does not have the power to act as a liquidator or administrator, it should consider what information must be exchanged with the liquidator/administrator to promptly deliver compensation to eligible investors. This consideration should be guided by relevant legislation and/or rules and guidelines in place for insolvency of investment firms. The ICS should develop relationships with the liquidators/administrators for failed firms and should agree, in advance, on the information to be exchanged, and on what timeline.

Sharon Sparkes:

That sounds like an essential starting point for an operational readiness and resilience plan. I expect that completing such a comprehensive mapping process would also provide tremendous comfort to the board of directors of an investor protection fund, as we call them in Canada. Now turning to your second element, Karen - the importance of relationships with other safety net participants. Would you comment on this point for our listeners?

Karen Gibbons:

ICS, as part of the wider financial safety net, needs to be involved with other safety net participants, in particular, the regulatory authorities responsible for the supervision of protected investment firms. ICSs need to build strong relationships to ensure that ICSs are made aware of firms which may be failing, and get plenty of notice, where possible, of any impending failures, allowing time to prepare for failure. ICSs will also want to involve other members of the financial safety net in any testing of the operational readiness and resilience plans, which brings me on to my next point - testing. It's so important that ICSs stress test their operational readiness and resilience plans. ICSs should consider testing the full operational readiness and resilience plans, e.g. running an end-to-end test at least every three to five years. Elements of the stress test should be tested annually. Members of the safety net should also be involved, where necessary, in the testing plan, for example, in relation to backup funding or early warning systems.

Sharon Sparkes:

Thank you. I am sure our listeners will find that information to be most helpful. Do you have any other key messages that you would like to convey to our listeners? Are there trends regarding compensation funds in other jurisdictions that you think may be of interest to our listeners?

Karen Gibbons:

I think it is a matter of interest to all ICSs, the changing and developing investment markets - both how consumers access investments and the new products available. More and more consumers are accessing investment services online or as a result of ads on social media. I know many of my colleagues and our international counterparts have concerns about consumers, and whether they are dealing with regulated investment firms. Certainly, in the UK, we are seeing more and more consumers facing online scams. I know as well there is a concern about whether customers necessarily understand what is a protected investment. Crypto assets are an example. Some consumers may view this as an investment product, but generally, this is an unregulated market with little or no consumer protection. The question is, can regulation and investment protection keep pace with financial technology developments, and do consumers understand the risks associated with some of the new products available? There is lots of work to do in this space and international collaboration and exchange of experience between ICSs is so important here. We can all learn from each other, including best practices.

Sharon Sparkes:

Thank you for those observations. It is interesting that here in Canada, we are seeing some of the same trends you identified, such as the tremendous increase in investors accessing investment services online, a surge in online investment scams, and uncertainty about crypto assets.

Sharon Sparkes:

Karen, it was an absolute pleasure having you with us today. It has been a very thought-provoking and interesting discussion. Thank you for sharing your research and your time with us.

Karen Gibbons:

It was my pleasure to be here.

Sharon Sparkes:

Three key takeaways that I've drawn from this session are:

1. Operational readiness and resilience plans can help contribute toward effective crisis management.
2. Furthermore, end-to-end process mapping and testing of all the steps needed to achieve payout to eligible investors is the foundation of a readiness and resilience plan.
3. And finally, regular involvement with other safety net participants, in particular, the regulatory authorities responsible for the supervision of protected investment firms, helps ensure that investor compensation plans are ready to act when required.

Sharon Sparkes:

I'd like to thank our listeners for their attention, and I hope that you have found the discussion as stimulating as I have. We always welcome your comments. The best way to reach us is through our website. Finally, we invite you to listen to CIPF's other podcasts available on CIPF's website and podcast channels or to read the transcripts, which are available in both English and French on our website. I'm Sharon Sparkes, and goodbye for now.