



# Unit 30: Legal Principles and Professional Ethics in Financial Services

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## Delivery guidance

This unit will give learners the skills and knowledge to understand the main legal principles and behaviours that underpin the financial services sector.

Learners will gain knowledge of how to carry out research and prepare a presentation which gives an insight into the history of law, the main sources of financial crime and the protection that is in place to protect consumers. This will be based on gaining practical experience through, and by applying, sound research principles.

Inherent to the successful operation of the financial sector is the ability of a business to conduct itself in an ethical manner. This is an area that will be investigated from the perspectives of business and professional ethics. Learners can gain experience of the importance of ethics by engaging with professionals and businesses that operate within the financial sector through arranged work experience placements and visits from industry professionals.

Whilst operating ethically is key to the success of a financial services business, it must also seek to consistently maintain the highest professional standards. If possible, learners should be given the opportunity to experience a training session within a financial services organisation that addresses this ethical dimension. Alternatively, they could be given access to industry standard training materials that can be used to inform their understanding.

## Approaching the unit

Learners will gain knowledge and skills in order for them to understand how to work towards a career in the financial services sector. Learners will be required to produce evidence that will enable them to demonstrate their oral, written and creative skills.

Learning aim A is concerned with understanding how laws are created and how they function in terms of their purpose and in relation to UK financial institutions. Learners will then consider the main sources and types of financial crime that exists in the UK and around the world. They will also examine the legal framework that is in place to help protect consumers.

A central element of Learning aim A is understanding the link between financial crime and the laws that exist to prevent it from happening. A key point to focus on is the role that modern technology has played in exacerbating the speed at which financial crime now happens. Learners should investigate the ways in which financial institutions are currently protecting themselves and also consider how to avoid potential future threats.

Learning aim B is primarily concerned with examining the role that ethics play in the delivery of financial services. A key point for learners to note here is that, whilst most businesses will strive to operate ethically, their stated ethical policies may differ slightly depending on the sector of financial services in which they operate. However, learners should understand the key tenets of a range of ethical policies from a number of businesses. Through this analysis, learners will



compare the ethical policies of two different types of business that operate in the financial sector.

Learning aim C focuses on ensuring that staff and businesses are suitably equipped in the future to deal with the threats posed to financial services businesses. In delivering the content for this learning aim, you will introduce the financial services compliance process, including how to correctly identify clients. Learners must know the processes by which businesses get to 'Know Your Customer' (KYC) and then, when dealing with customers, how to act with integrity. This learning aim will give learners a degree of flexibility in terms of the creative ways in which they produce evidence for their summative assignment.



### Assessment model (internally assessed unit)

Learning aim	Key content areas	Recommended assessment approach
<b>A</b> Explore the laws regulating financial services in the UK	<b>A1</b> High-level regulation <b>A2</b> Financial crime <b>A3</b> Other areas of consumer protection	A presentation that outlines: <ul style="list-style-type: none"> <li>• how laws are created and the main purpose and function of the UK financial services regulators</li> <li>• the main ways in which financial crime can be committed and the laws relevant to those crimes</li> <li>• the protection for consumers which exists in law.</li> </ul>
<b>B</b> Examine business and professional ethics standards in financial services	<b>B1</b> Business ethics <b>B2</b> Professional ethics	A case study that includes: <ul style="list-style-type: none"> <li>• a comparison of the ethical policies of two major businesses from different sectors in the financial services industry</li> <li>• examples of the standards of professional ethics that financial services employees are expected to adhere to.</li> </ul>
<b>C</b> Investigate the principles and application of ethical behaviour in providing financial services to customers	<b>C1</b> Business regulation and compliance <b>C2</b> Know Your Customer (KYC) <b>C3</b> Act with integrity	Training materials for new staff to a financial services business that includes: <ul style="list-style-type: none"> <li>• the compliance processes related to providing advice to customers</li> <li>• confirming client identification</li> <li>• fact finding and suitability</li> <li>• acting with integrity recognising and dealing with conflict of interest situations.</li> </ul>



## **Assessment guidance**

The recommended assessments for this internally-assessed unit includes three set tasks. Learners must produce evidence that can be authenticated as their own. The main sources of evidence are likely to be presentations, case studies and training materials created by learners. However, learners should be given the opportunity to experience how businesses in the financial service sector operate ethically through their own research, work experience placements and visits by industry personnel.

Other relevant research material that could be used to support learner evidence may include copies of businesses' ethical business charters, financial crime figure reports and copies of relevant pieces of legislation to inform and add depth to work produced.

For Learning aim A, learners must demonstrate that they understand the history that underpins the laws that govern the financial sector by producing a presentation. It would be useful for learners to have contact with a sector specialist or a member of the legal profession to explain why laws have been established. The second part of this learning aim is to give learners knowledge on the main types of financial crime that are committed and the laws that are designed to prevent such occurrences. It may be worthwhile for tutors to contact the police to try and arrange a visit to their financial crimes division. This would enable detailed coverage of A2 and A3.

For Learning aim B, learners must produce a case study that compares the ethical business practices of two diverse financial services businesses. The case study must examine the policies of the two businesses in detail with a focus on stakeholders and how ethical practices are developed around their needs. The role that employees in the financial services sector play also needs to be examined and included within the case study. Learners could be given the opportunity of contacting a professional body to gather research for this evidence.

For Learning aim C, learners need to produce training materials for new staff to a financial services business. They will need to demonstrate their understanding of the regulatory framework that exists within the financial services sector, including how the products and services that are provided are compliant with regulations and that they meet the needs of customers.

In gaining the required knowledge, learners will develop an understanding of the processes, including service level agreements and the roles of various officers that ensure the financial institutions operate ethically and legally. To complete this learning aim, learners need to create a range of different training materials for new staff. It would be worthwhile for learners to gain an insight into the methods of training used in the financial services sector. This may give the opportunity for learners to visit a large financial institution and experience a training session with them (if possible).



## Getting started

**This provides you with a starting place for one way of delivering the unit, based around the recommended assessment approach in the specification.**

### Unit 30: Legal Principles and Professional Ethics in Financial Services

#### Introduction

Learners are required to gain an understanding of the rules and accepted behaviours that ensure the financial services sector operates legally and efficiently. After completing this unit, learners will understand the laws that regulate financial services in the UK, business and professional ethics standards that financial institutions must adhere to and, finally, the methods by which businesses ensure they are operating ethically when providing financial services.

#### Learning aim A – Explore the laws regulating financial services in the UK

- For Learning aim A, introduce learners to the three main areas: high-level regulation, financial crime and consumer protection.
- For Learning aim A1, the teaching should focus on how laws are created, as well as the main purpose and function of laws in the financial services sector. To ensure learners are engaged with the content, it would be beneficial to invite an industry expert from either the financial services or law sector to discuss relevant legislation and bodies related to the sector, such as:
  - acts of Parliament
  - the role of the Bank of England
  - the role of the Prudential Regulation Authority
  - the Financial Conduct Authority (FCA).
- Learners must know how financial regulation is governed and by whom. It is important that learners know the role of a range of financial regulators. It is also important that learners use the research they have completed to good effect to ensure that their presentation is interesting, relevant and detailed. This evidence will be assessed through the form of a presentation and, therefore, it is important that this topic is presented in a detailed but accessible manner to other learners.
- For Learning aim A2, this section of work on financial crime should prove interesting and relevant to learners. Initially, learners should undertake research into the different types of financial crime that take place (e.g. data protection, money laundering, market abuse and bribery) and establish the costs of the losses to consumers.
- Learners will also need to investigate the laws that are relevant to preventing those crimes. A good starting point is to visit the Financial Conduct Authority website to find out about current financial crime issues, along with suggestions to prevent financial crime occurring. To reinforce this knowledge, it would be beneficial to give learners the opportunity to speak to someone from the legal profession or the police. All relevant research references used should be included in the summative assignment for LAA.
- For Learning aim A3, the focus is on other areas of financial protection. The delivery should focus on investigating the following consumer protection and human rights laws (note that these are current at the time of publication and are subject to change):



- The Equality Act
- Financial Services Compensation Scheme
- Financial Ombudsman Service
- Advertising Standards Authority.
- Examples of where such laws have been breached or where the various organisations have been called into action may be an interesting way for learners to understand the content and give relevant examples for their summative assignments. In delivering this content the tutor should give learners copies (or extracts) of the legislation and ask them to answer a set of comprehension questions on what they have been issued.
- You could carry out a formative quiz using, for example, the Kahoot! app to check learners' understanding of Learning aim A.

### **Learning aim B – Examine business and professional ethics standards in financial services**

- For Learning aim B, learners need to understand how the ethical choices that businesses make impact upon both stakeholders and shareholders. Learners must also know how the various relevant codes of conduct apply to a range of financial sector business scenarios.
- For Learning aim B1, the teaching should focus on the different ethical approaches that businesses take, such as a shareholder- or stakeholder-focused approach. Learners could conduct their own research into the definitions of ethics in business and create their own glossary of key terms and meanings.
- Learners need to know that the shareholder approach will focus on acting ethically whilst returning maximum value for shareholders, whereas the stakeholder approach focuses on how the decisions made by businesses directly affect those connected with the firm. One suggested way to teach this would be to investigate the ethical approaches of a major multinational business and contrast these with the standpoint taken by a worldwide charity. This will highlight the key differences in approach and expectations.
- For Learning aim B2, learners have to know that professional ethics means 'doing the right thing all the time' despite pressures from customers, colleagues and other stakeholders. Examples of where poor ethical judgement has caused a disaster (e.g. Chernobyl and the use of sub-standard materials) could be a way of reinforcing this knowledge. Learners could conduct their own research into the definitions of professional ethics and codes of conduct, creating their own glossary of key terms and meanings.
- Researching codes of conduct, as set out by the FCA and professional bodies, will enable learners to find out what is and isn't ethical in the world of financial services. Moreover, investigating the roles of professional bodies (e.g. the London Institute of Banking and Finance (LIBF)) will give additional understanding in knowing how ethics are central to the successful operation of financial services businesses.
- You could carry out a formative quiz using, for example, the Kahoot! app to check learners' understanding of Learning aim B.

**Learning aim C – Investigate the principles and application of ethical behaviour in providing financial services to customers**

- Learning aim C is designed to make learners consider business regulation and compliance along with the principles of 'Know Your Customer' (KYC). The learning aim concludes with developing understanding of how to act with integrity.
- For Learning aim C1, the teaching should concentrate on the standards, procedures and personnel/organisations that are involved with ensuring business regulation and compliance is rigidly adhered to in the financial services sector.
- The learning aim's summative assignment requires learners to create a range of training materials. To this end, it would be beneficial if learners could visit an employer who operates within the financial services sector to gain first-hand experience of how training is delivered and the materials that are used to support it. If this is not possible, learners need to research a large business that operates in the secondary or tertiary sector and obtain relevant documentation, e.g. customer service standards charter, service level agreements and complaints procedures. These documents are also commonly used at the Centre where the learner is studying. Learners should analyse and discuss the content of the documents.
- Learners need to also know why service level agreements are created and the roles of both the Compliance Officer and the Money Laundering Reporting Officer. A suggested way of understanding these roles would be to obtain job descriptions, either from a business or, if possible, by searching on the internet. This will help learners make informed decisions when creating their training materials.
- For Learning aim C2, learners will need to know the methods and techniques used to fact find and give customers the correct advice for financial service products. This is known as 'Know Your Customer' (KYC). One way in which knowledge and understanding could be developed is through the use of role play scenarios. Learners could get into pairs or groups to research and perform the various stages of the KYC process based on the scenario of a financial services business.
- For Learning aim C3, the teaching should focus on learners developing an understanding of the situations that may challenge a person's ability to operate with integrity. Learners could conduct their own online research to find out the definition of 'conflict of interest' and the various possible scenarios that may occur (e.g. same insurer for claimants, selling of a product that will give benefits to the employee in terms of bonus or similar, customer wanting to take out unsuitable product).
- Learners need to understand what whistleblowing is and when it is appropriate to inform others about the illegal or unethical practice by others in a business. They must also know that they are protected in law by the Public Interest Disclosure Act. It may be useful for learners to obtain copies of whistleblowing policies from a financial services sector business.
- You could carry out a formative quiz using, for example, the Kahoot! app to check learners' understanding of Learning aim C.



## Details of links to other BTEC units and qualifications, and to other relevant units/qualifications

- Unit 1: Exploring Business
- Unit 3: Personal and Business Finance
- Unit 7: Business Decision Making
- Unit 14: Investigating Customer Service
- Unit 23: The English Legal System
- Unit 26: Aspects of Criminal Law Impacting on Businesses and Individuals
- Unit 27: Work Experience in Business
- Unit 31: Effective Management of Personal Debt

## Resources

In addition to the resources listed below, publishers are likely to produce Pearson-endorsed textbooks that support this unit of the BTEC Nationals in Business. Check the Pearson website (<http://qualifications.pearson.com/endorsed-resources>) for more information as titles achieve endorsement.

### Textbooks

Boatright J R, *Ethics in Finance*, 3rd edition, Wiley, 2014 ISBN: 9781118615829 – A very useful resource which addresses the key topics of this unit in an accessible way.

Hendry J, *Ethics and Finance: An Introduction*, Cambridge University Press, 2013 ISBN: 9781107024229 – This is a really good book which provides solid underpinning for the topics in this unit.

### Videos

'Ethics in Finance is Good! Episode 1 Ethics, the Performance Enhancer' – This is a very accessible video presented in an animated storyboard style which discusses the need and benefits of ethics in financial service sector businesses  
<https://www.youtube.com/watch?v=K23cV1Jvhqw>

### Websites

<https://www.fca.org.uk/> – This website contains a range of relevant and current articles on ethics in the financial sector.

<https://www.europeanfinancialreview.com/> – Search the website for 'Ethics in Finance: Why is it such a problem?' for a really interesting article highlighting the issues associated with finance and ethics.

*Pearson is not responsible for the content of any external internet sites. It is essential for tutors to preview each website before using it in class so as to ensure that the URL is still accurate, relevant and appropriate. We suggest that tutors bookmark useful websites and consider enabling learners to access them through the school/college intranet.*