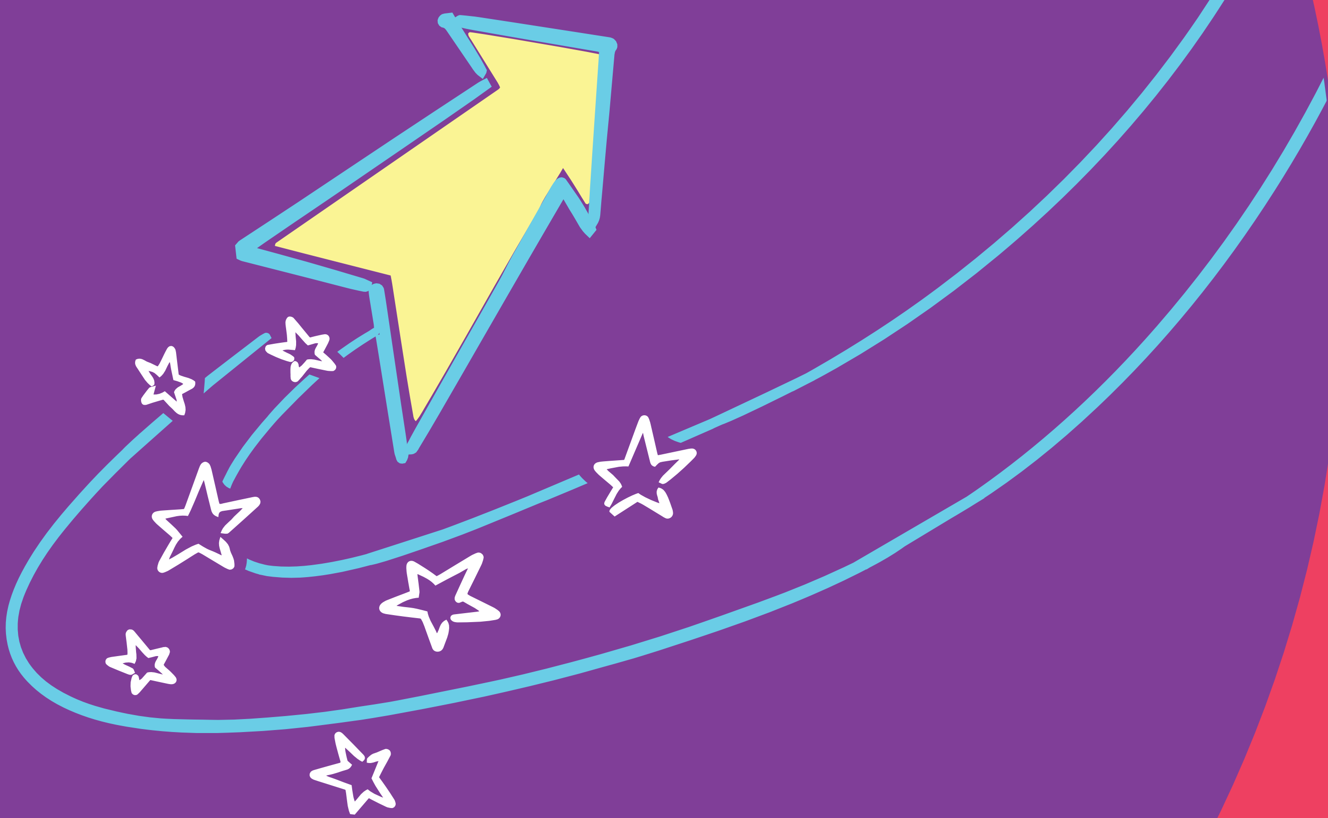
INVESTING IN OUR FUTURE: MOVING TOWARDS A GROWTH AND SKILLS LEVY



LONDON MARKET GROUP

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INTRODUCTION

The London insurance market, made up of the 350 commercial (re)insurance businesses that call London home, is a major employer of nearly 60,000 professionals, two thirds of which work in the City of London. Its businesses earn over $159bn and make an economic contribution to the UK economy of £49bn every year – equivalent to paying the annual salaries of all NHS nurses and midwives in the UK three times over.[i]

It is, however, an ageing workforce, with as many staff over 50 as under 30[ii]. The London Market has long recognised the value of apprenticeships and has always employed more school leavers than other areas of financial services. Of the 1,200 young people the market recruits each year, around one-third of new entrants are apprentices, and a third join via entry-level roles but are not part of a formal programme.

However, it also needs to encourage more firms to hire more. 50% of new joiners in the London insurance market go into the top three brokers, and a further 20% go to five large insurance companies. If the market is to retain its intellectual and financial capital and secure its reputation as a world-leading risk transfer hub for providing innovative solutions for complex and challenging problems, then it urgently needs to increase the flow of young talent into the market and to widen the pool from which this talent is drawn to reflect the society which it serves.

As its representative body, the London Market Group (LMG) recognises this challenge and has been focused over recent years on helping to build a diverse, dynamic workforce that offers a deep talent pool on which the market can draw. In order to do so, a thriving apprenticeship sector will become even more important than it is today.

However, many businesses have told us that they find the current Apprenticeship Levy, which is funded by a 0.5% Levy of employers' annual wage bills over £3 million, difficult and costly to manage. As a market with a large number of smaller specialist companies, many are also excluded from it. In order to widen the market's talent base and empower SMEs to take on early career apprentices, we need wholesale Levy reform.

To this end, the LMG supports the Government's focus on skills and the ambition to reform the existing Apprenticeships Levy[iii] into a 'Growth and Skills Levy.'

In light of this reform agenda, the LMG has worked with HR professionals and early careers specialists at a number of London Market businesses and Lloyd's of London to consider the predominant issues with the existing Levy, and to identify what changes would make the Levy more workable and user-friendly for businesses, both within the London Market and beyond.

FIVE RECOMMENDATIONS FOR REFORM

ENABLE THE LEVY TO BE SPENT ON ALL COURSE RELATED TRAINING, INCLUDING SOFT SKILLS AND ONGOING SUPPORT

ADJUST LEVY FUNDING IN LINE WITH INFLATION

INTRODUCE FLEXIBLE STANDARDS WHICH MEET THE NEEDS OF MODERN BUSINESSES

REFORM ARBITRARY END POINTS TO MAXIMISE COMPLETIONS AND SIMPLIFY PAYMENTS TO TRAINING PROVIDERS

MAKE IT EASIER TO TRANSFER LEVY FUNDS TO OTHER ORGANISATIONS

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ISSUES WITH THE CURRENT SYSTEM

THE APPRENTICESHIP LEVY IS NOT WORKING AS IT SHOULD

This was the consensus amongst the HR and early careers specialists we spoke to who supported the principle upon which the Levy was introduced.

Businesses told us that unnecessary bureaucracy and red tape, as well as restrictions on usage and a failure of the Levy to keep pace with inflation, is resulting in sub optimal usage and unspent Levy being sent back to HM Treasury.

The industry professionals we interviewed estimate that total returned Levy for the London Market tallies well into the millions annually.

The issues set out above have led to a fractured landscape in relation to Levy usage within the market:

- **One business has chosen to not fund its apprentices via the Apprenticeship Levy despite having nearly £1 million available to use in their Levy pot.** As a relatively small company of 500 staff, set up only five years ago, they consider the Levy to be too "complicated, slow and unagile" to make using it worthwhile. There is also a desire that school leavers should have full-time jobs in the business from the outset, which is managed internally and therefore does not require the tutor check-ins that Levy-funded courses necessitate.
- **Another organisation did not use its Levy funding until a year ago when a senior early careers role was created**, in part to handle its c. £1.5 million unspent funding pot. It was sending c. £40,000 back to HM Treasury every month, in part because "it's not possible to spend the Levy fast enough" within the 24 month time limit.
- **A further company is only reclaiming approximately 25%, around £400,000, of its Levy contributions** towards 160 apprentices (covering everything from school leavers to management level qualifications) because of the prescriptive nature of what the Levy can be spent on.

CHALLENGES FACING THE LONDON MARKET

THE LEVY IS NOT KEEPING PACE WITH INFLATION

Businesses told us that Levy funding bands have not kept pace with increasing training provider costs and charges (the extent of this was noted to vary from provider to provider), and have not been reviewed for a number of years, leaving companies to top up on Levy funding despite sending large sums back to HM Treasury every month.

The fact that businesses are investing their own resources to top up the Levy shows the importance of the contribution that apprentices make. However, the need to top up on insufficient funding bands is resulting in a market where smaller or less profitable firms can't afford the top up and therefore are deterred from hiring apprentices.

THE STRUCTURE OF THE LEVY LIMITS BUSINESSES' ABILITY TO MAXIMISE THEIR APPRENTICESHIP PROGRAMMES AND RECRUIT TALENT FROM A RANGE OF SOCIO-ECONOMIC BACKGROUNDS

To be able to use the Levy, one London Market business has had to spend an additional £200,000 to cover the necessary costs of recruiting, onboarding, and additional learning and development for 12 apprentices. Levy pots cannot be used to fund 'lead generation activities,' including outreach, recruitment and marketing costs, which are all essential to reaching 'cold spots' and communities which might not have traditionally thought about a career in the industry, don't have connections to the City of London, or have never been in a corporate environment.

The business in question also runs an Early Careers Induction; this cannot be funded by the Levy as these skills are not included in the relevant standards. It has been set up to develop skills, which may not have been fully developed in education, and provide them with the additional technical skills that they need to succeed in the Market. The following table shows the extent of the work that goes into making the business' apprenticeship programmes a success; none of it refundable on the Levy based on the standards of the qualifications in the Market.

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GETTING ESTABLISHED Building skills to transition to working life	Introduction to the company Introduction to Lloyds/ insurance Workplace etiquette Introduction to HR systems	Learn how to learn Networking Understanding goal setting Personal brand
BUILDING COMPETENCIES Building skills to operate as an effective employee	Effective relationships Time management Task prioritisation Behavioural styles Working well with others Communication	Building resilience/ Navigating change Growth mindset Problem solving Office 365
GROWING FUTURE LEADERS Building skills to become future leaders	Project management Presentation skills The power of storytelling Emotional intelligence Effective meetings	Career development Effective feedback Mentoring Leadership

THE LEVY CAN DISINCENTIVISE EARLY CAREER QUALIFICATIONS

The structure of the Levy incentivises organisations to fund employees mid-career, as there is none of the additional infrastructure and training required compared with those at the start of their careers. One company we spoke to was only using a third of their Levy on early careers, and the rest on upskilling more senior staff. These can be delivered more easily and do not require the additional wraparound funding required by those at the early stages of their careers.

The Apprenticeship Levy is a major untapped resource to progress social mobility. Businesses told us that widening opportunities for people from a range of socioeconomic backgrounds is not only important from a social responsibility standpoint, but that the early careers apprentices which they hire offer valuable and unique perspectives, as well as improving organisational cognitive diversity.

BUREAUCRATIC BURDENS ON APPRENTICES AND BUSINESSES

There is a widely held perception amongst employers that there are a number of requirements for learners that do not support apprentices' progress. Businesses told us that training provider-set requirements often don't take sufficient account of the reality of programme delivery and the fact that apprentices are working full time alongside study.

According to a study from the St Martin's Group, 29% of apprentices said that high workload had contributed to them withdrawing from their programme[iv]. This is supported by research from the Department for Education[v]. Government guidance is interpreted by many providers as a minimum standard, which they then far exceed in their own requirements. Over-compliance is inhibiting skills development and puts undue pressure on learners. For example, apprentices may have to:

- Evidence six 'off the job' learning hours a week. Employers told us that for many apprentices this disrupts their practical learning without necessarily adding to their competencies as an employee.
- Meet, alongside their managers, with apprenticeship coaches on a quarterly basis for an hour (despite the fact that an hour is not always required, we have heard). Depending on how many apprentices a manager is supporting, this can equate to a whole day of meetings.
- Based on calculations done with London Market businesses, apprentices usually have to complete 450-500 hours of 'off the job' learning over a standard 18-month course. Our concern is that this one-size-fits-all approach shows little appreciation for the varying nature of business needs and the different ways in which individuals learn.

For London Market businesses these are major disincentives to using Levy funded courses. Learners can be nervous about committing to undertaking 6-8 hours of off the job learning every week for 15-24 months. It was noted that some learners did not complete their courses due to these requirements. Businesses have had to consider completion bonuses to avoid apprentices dropping out of schemes early and to incentivise them to complete the full course.

For businesses, there is a nervousness to adopt a programme which needs to be 12+ months in duration to use the Levy, especially when the qualification can be achieved in a more flexible and less time-intensive way outside of the Levy structure. Many managers and business leaders are deterred by the strict 'off the job' learning time – as they only get that apprentice's output for 80% of the time.

The company we spoke to which has chosen to not use the Levy told us that it puts them at an advantage compared to other businesses, as employees are not subject to time-intensive additional work and meetings on top of their day job.

There have been recent improvements; manager meetings have recently been reduced from monthly to quarterly, and 'off the job' hours reduced from eight to six, which is to be welcomed. However, reforms need to go further and there needs to be more trust and flexibility in the system.

APPROVED QUALIFICATIONS DO NOT KEEP PACE WITH THE SKILLS LONDON MARKET BUSINESSES NEED

The approved qualifications with which businesses can reclaim on the Levy do not keep pace with the modern requirements of the London Market, including on AI, data analysis and IT. The Market needs to be more agile to accurately prepare apprentices for the challenges they will face in their careers, and standards are currently only reviewed once every two to three years through the Institute for Apprenticeships and Technical Education's (IfATE) Trailblazer groups.

COMPLETIONS IMPACTED BY ARBITRARY END POINT ASSESSMENTS

The London Market has identified a challenge in early careers apprentices not completing their full apprenticeship course. This is often due to the highly competitive employment market in the industry, which sees apprentices move to other companies in return for promotions and higher pay. Levy-paying employers have a higher rate of completion than non-Levy employers, however this still works out at below 60% of apprentice starts[vi].

Low rates of completion are in part down to the structure of courses and the Levy requirements. On the vast majority of apprenticeships, until a learner completes an End-point Assessment (EPA), they have not technically completed the apprenticeship. One of the reasons for the high non-completion rate is that in some apprenticeship programmes, the apprentice achieves their professional qualification before they complete their EPA. Many will undertake an apprenticeship in order to gain the professional qualification, so there is little incentive to complete a lengthy EPA to gain a further, less commercially valuable apprenticeship certificate.

In this case, because the provider has trained the apprentice through their professional qualification, but not the EPA, they cannot claim payment, which often comes to around £3-4,000. This has major implications for training providers, who receive 80% of the payment during the apprenticeship and 20% upon completion. To mitigate against the risk of lost income, they increase their charges for courses.

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OUR PROPOSALS FOR REFORM

ENABLE THE LEVY TO BE SPENT ON ALL COURSE RELATED TRAINING, INCLUDING SOFT SKILLS AND ONGOING SUPPORT

Soft business skills training, as well as the technical introductions to the concepts required for commercial insurance and financial services practices, make a significant contribution to achieving the final qualification, but cannot be claimed on the Levy.

The additional costs that this involves should be allowed to be reclaimed under the Levy. Employers should also be able to spend the Levy on training for managers to enable them to provide extra support for colleagues in their early careers.

With organisations giving money back to HM Treasury every month in unused Levy, there is no reason why activities related to training and skills development shouldn't be fully funded.

ADJUST LEVY FUNDING IN LINE WITH INFLATION

Apprenticeship funding bands have been broadly static since the Levy system was created, and are completely out of step with today's training providers costs.

The Government should review the actual charges by training providers per programme compared to the Levy caps, and increase caps in line with this. It should then commit to reviewing them on an annual basis, to ensure maximum value for money for employers, apprentices, and the taxpayer.

For example, an Actuarial Level 7 apprenticeship, a programme set by the Levy, has a funding cap of £18,000 for a four-and-a-half-year programme. Training providers charge around £24,000, requiring the rest to be topped up out of an organisation's commercial budget. This is in addition to membership fees and exam costs, all of which cannot be claimed back under the Levy.

Funding should be reviewed and altered if organisations raise concerns that the Levy is not sufficiently covering costs.

INTRODUCE FLEXIBLE STANDARDS WHICH MEET THE NEEDS OF MODERN BUSINESSES

Apprenticeships must be agile enough to include the key skills that business need to stay competitive. For the London Market this includes skills and qualifications regarding data analytics, modelling and AI. If the Levy supported this in a more flexible way, then it would be a better use of money, and more companies would consider adopting it.

Currently, apprenticeship standards are reviewed through Trailblazer forums, which are made up of representatives from IfATE, insurance companies, training providers, and membership bodies. While supportive of including all stakeholders in the process, businesses told us that these standards go through wholesale reviews roughly every two to three years and can be time consuming and slow.

Today's fast-evolving jobs market requires more frequent, ad-hoc reviews to update standards so they encompass new and emerging challenges and technology more agilely. Businesses should also be able to flex on standards depending on their needs as a business.

REFORM ARBITRARY END POINTS TO MAXIMISE COMPLETIONS AND SIMPLIFY PAYMENTS TO TRAINING PROVIDERS

The organisations we spoke to largely saw the value in keeping some form of EPA but agreed that it should be reformed and made more manageable. It was noted that reforms have been attempted in the past to mitigate against apprenticeship dropouts but had led to a number of unintended consequences affecting membership bodies.

The Government should give further consideration to the timing of the EPA. As it often does not reflect the actual qualifications a learner is achieving, it can be an arbitrary endpoint. The Government should work closely with industry, training providers and regulators to come to a resolution which the whole industry can agree on.

Businesses also told us that training providers should be able to draw down on Levy funding at more frequent intervals. Simplification of the payment system should be a priority to ensure suppliers can get paid promptly.

Currently, suppliers have to hit certain, often arbitrary, milestones to be able to draw down funding from the Levy – this should be made more frequent, so suppliers have a steadier stream of income.

MAKE IT EASIER TO TRANSFER LEVY FUNDS TO OTHER ORGANISATIONS

There are several barriers to transferring unused Levy funding to other organisations, such as SMEs or charities. Currently, 25% of a company's Levy pot can be transferred. Businesses wanting to receive unused funds often have small HR functions, but must be registered as a provider and say precisely what they will use the funding for, including completing "excessive" amounts of paperwork.

To encourage greater take up from smaller organisations, the Government should consider creating ringfenced pots of unused Levy, that could then be accessed by approved SMEs, charities and public sector bodies for skills building and training. Larger businesses could transfer in their unused Levy, reducing the bureaucracy for all the organisations involved.

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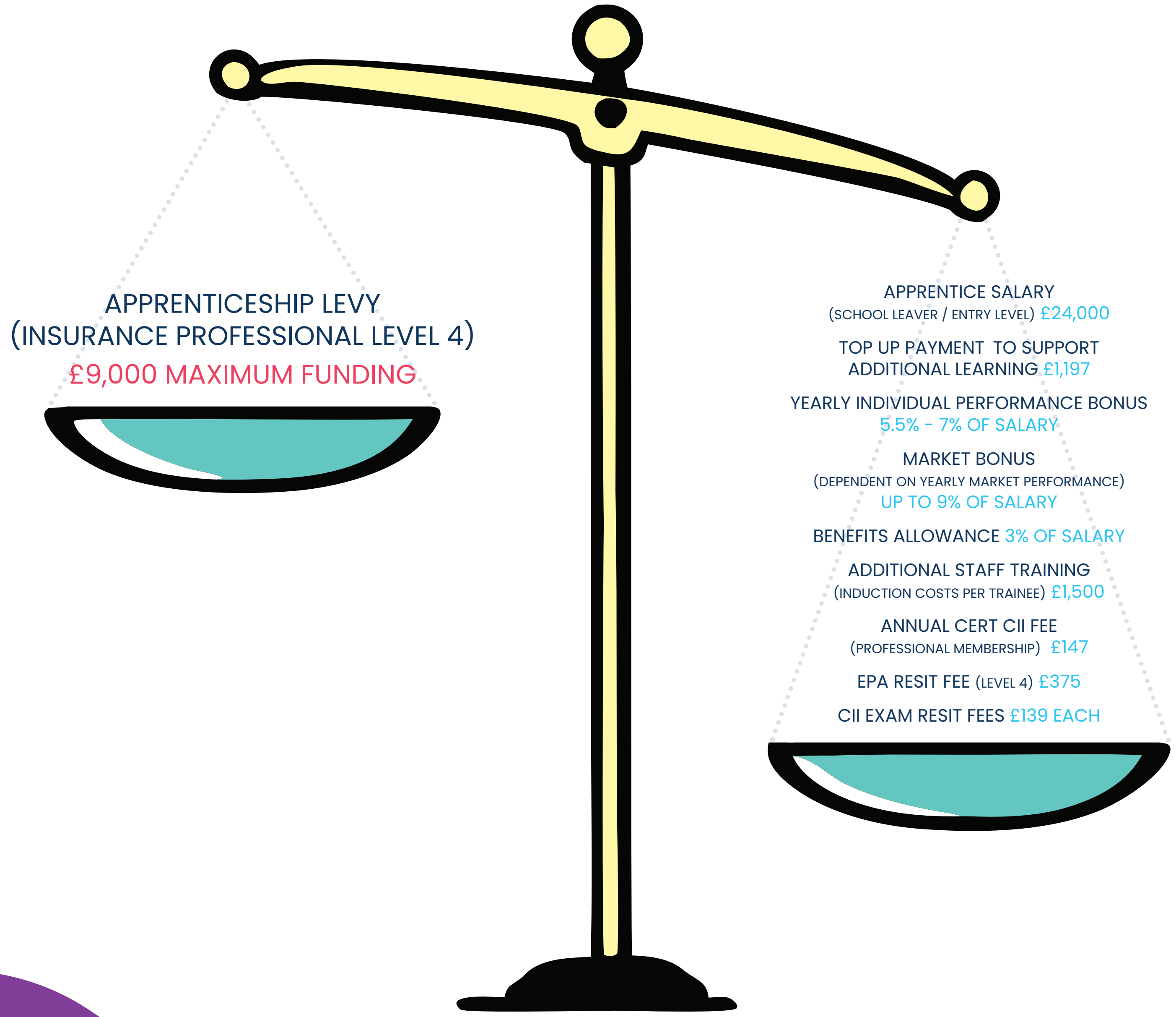
INVESTING IN A LONDON MARKET APPRENTICE

London Market firms make significant investments in their apprentice and apprenticeship programmes. Using data provided to us by market participants, it is clear that a significant amount of additional funding is often contributed, on top of the funding available through the Apprenticeship Levy for a typical Level 4 early career apprenticeship qualification.



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Chartered Insurance Institute
Standards. Professionalism. Trust.

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ABOUT THE LONDON MARKET GROUP

The London Market Group is the only body which speaks collectively for all practitioners in the specialty insurance market, representing the views of insurance brokers, those insurers and reinsurers operating within Lloyd's, and branches of overseas insurers and reinsurers operating in London – reflecting the full extent of the Market.

The LMG's dedicated careers website London Insurance Life provides students and graduates with a one-stop-shop to learn about the London Market and find entry level career opportunities in speciality insurance.

For more information visit: londoninsurancelife-lmg.com.

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