

Retail Distribution Review

Raising the stakes

The intermediary market still suffers from the legacy of having emerged from the foot-in-the-door life assurance sales industry of the 1960s. Tim Eadon highlights the changes proposed in the FSA's Retail Distribution Review and argues that intermediaries must raise their professional standards and qualifications if they want to be regarded as trusted impartial advisers.

A "plethora of divergent views" was how one attendee of the Financial Services Authority's Retail Distribution Review conference described the experience. The debate has begun and the road to success will be a long and winding one, to paraphrase William Blake.

It began last year at Gleneagles when Sir Callum McCarthy, the FSA chairman, referred to the present retail distribution system as "broke" and that its practices needed to be scrutinised. What the financial services industry must now undertake is a thorough review of the way it is perceived by the public and how its advice can be shaped over the coming decade.

The FSA states that the aim is to have a retail market characterised by:

1. Capable and confident consumers
2. Clear, simple and understandable consumer information
3. Soundly managed, adequately capitalised and TCF focused firms

It warns that risk-based and principles-based regulation is jeopardised by:

- Consumers' low level of financial knowledge and interest combined with complexity and evolution of products
- Consequent heavy reliance on advisers who may be remuneration (rather than customer service) driven
- The long term nature of products which means that

problems may take a long time to surface, by which time the original adviser may no longer be in business

- Costs which deter consumers, arising from regulation and the way firms choose to implement it
- Lack of knowledge on the part of advisers due to inadequate training and testing.

All this means the market is not efficient. Further, the market is developing and changing. For some, income and wealth are increasing and with that choice - principally in pensions, healthcare and education. For others, a new need to make or ensure their own financial provision, made more apparent by pensions issues, is hard to ignore. In either case, some form of financial advice or support service may be needed.

The Treasury review of the advice system, chaired by Otto Thoresen chief executive of Aegon UK, has begun to ask questions about the possibility of a generic advice system to help and assist those in society who fall outside the 'educated' consumer. Adults who have left school and are not regarded as financially capable need simple, uncomplicated advice.

Against this background and to bring into play a wide spectrum of ideas, the FSA decided to use five formal groups of senior market individuals (including distributors and product providers) to try to reach consensus on possible solutions, also taking account of the widespread industry and public policy debate on these issues.

The paper summarises the views of the groups, and the chairs presented their conclusions at the FSA's conference. However, the FSA itself has brought together in Chapter 2 of the paper an account of how the groups' proposals could be implemented and this is somewhat different in emphasis from the outcomes of the groups' discussions. It is the FSA's set of ideas which is largely the content of this paper, since it represents at this time the latest thinking.

The FSA discussion paper has triggered a period of consultation that will shape the development of the financial advice market, and involve all its stakeholders. Thankfully it has not published the paper without giving interested parties fair warning.

Indeed, we can take comfort from the fact that the regulator has actively sought the participation of bodies such as the CII/PFS as it has formulated its initial thoughts. This has given us time to prepare a very detailed, independently-produced submission by Deloitte and Touche which sets out a framework to raise standards for the public benefit and encourage professionalism and trust across the intermediary sector.

Our report suggests adopting a "tiered professionalism" approach to create the opportunity to raise existing standards while developing new standards for emerging sales and service models.

Working with Deloitte and Touche, we conducted extensive research into the structure of the market and how it might evolve to serve its customers better. We lodged this paper with the FSA some months ago, and it is gratifying to see that many of the arguments we have proposed have emerged in the FSA's initial discussion paper.

For example, the FSA believes in the merits of Chartered status, saying all those who give advice in financial services should strive towards it - or "equivalent". Likewise, the FSA believes advisers should belong to a professional body. And with 90,000 members, the CII is by far the largest body of its type, superbly poised to extend its reach and influence across the advice community.

Our report recommends the introduction of tiered professionalism and membership of a professional body. But the core message remains a simple one: greater professionalism is essential in enhancing trust in advice and public confidence in the quality of advice given.

This will deliver clear benefits. For advisers imbued with professionalism, there should be the quid pro quo of lighter-touch regulation. As part of the drive to greater professionalism, we need to discuss with the FSA what the regulatory dividend might be.

The prize for raising our game on professionalism is repairing our reputation and building trust with customers. Increased public confidence will mean more and better financial decisions.

But remember that we are only at the beginning of a lengthy debate. The initial consultation will last six

months, there will then be feedback and a consultation paper will see us reach the end of 2008. Then it will take a reasonable span of time for any changes to be introduced and for them to bed down. So there is still a lot of work to be done to get our message across. Our

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paper to the FSA is the foundation on which we must build even stronger arguments about the need for professionalism across our sector.

Of course, many of the problems and possible solutions commonly discussed are not new. Some debates, such as the malign effects of commission incentivisation, go back to the 1980s or before. Others, such as the possibility of a single professional body for the retail intermediary, have been debated since at least 1990 and (in the form of the Insurance Brokers Registration Council) as far back as 1976. So-called 'factory gate pricing' has been offered as a solution to commission bias since at least 1991 and was suggested by PFS to the ABI in 2005

It was acknowledged in response to questioning at the conference that the RDR agenda is a risk for the FSA. It may not get every aspect right and the effect on the market and consumers of the set of proposals now on the table is largely unknown. To mitigate the risks, the FSA acknowledged that a large amount of research is now called for. Also, choices will need to be made as to which aspects of the RDR to prioritise, to work up or to postpone. For a start, the FSA has firmly put on the back-burner any read-across from the RDR to intermediaries outside of financial planners and advisers.

It is important that members engage in this debate - locally, via the CII itself and wherever you have the opportunity to fly the flag of professionalism. As the debate advances, we will seek your views so that we can feed them into our response to the discussion paper and ensure the interests of all members are advanced with pride and professionalism.

You can read the Personal Finance Society's submission to the FSA - "Professionalism and Reputation" - on the website (www.cii.co.uk) and you can access the FSA review material on (www.fsa.gov.uk). □

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