

FSA DP07/1 - Retail Distribution Review

**A response by the Chartered Insurance
Institute and the Personal Finance Society
December 2007**

THE CHARTERED INSURANCE INSTITUTE AND PERSONAL FINANCE SOCIETY

The Chartered Insurance Institute

The Chartered Insurance Institute (CII) is the world's leading professional organisation for insurance and financial services. It maintains the professional, ethical and technical standards of the industry. It is dedicated to promoting higher standards of competence and integrity through the provision of relevant qualifications for employees at all levels and across all sectors of the industry.

Success in CII qualifications is universally recognised as a sign of commitment and professionalism.

Individually, the CII's members commit to continuous professional development, through learning and examination, to maintain their professional standing. Its 90,000 members in 150 countries make up the largest professional body in the financial world. We all rely on professionals to maintain accurate and relevant knowledge and to give appropriate and unprejudiced advice. The CII ensures that we can trust in the competence and conduct of insurance and financial services professionals the world over.

The Personal Finance Society

The Personal Finance Society (PFS) is part of the CII Group and is the leading professional body for financial advisers and those in related roles. With well over 23,700 members, it promotes the highest standards of professionalism in the financial services profession, and sets the standards for technical knowledge, customer service and ethical practice across the entire financial advice community.

To achieve its aims, the Society provides its members with access to technical qualifications, learning materials, support services and practical benefits. The PFS is uniquely placed, as a lobbying and campaigning organisation, to support consumer demands for reliable, professional advice.

Helps members become better qualified:

- We do this by providing a comprehensive programme of events designed to help members acquire and maintain relevant knowledge and skills.
- There is a CPD scheme based on knowledge and skill requirements to be fit for purpose.

Identify the sources of professional advice:

- There is one set of designations which makes it much easier for consumers to identify advisers who are members of the Society and for consumers to recognise that membership of the Society is an essential part of selecting an adviser.
- We offer a 'find an adviser' facility on the website which is available to members.

Develop members' business and client skills:

- The Personal Finance Society is keen to support members in their business and offers specific business skills courses, meetings and conferences which take place across the UK. The regional structure is a vital part of the PFS.

Promote the standing of members

- Membership of the Personal Finance Society is open to individuals working in financial services and it is on behalf of their long-term interests that the Society will carry out its public affairs activity.

For further information on the CII/PFS position on the RDR and for other RDR related content, please visit our dedicated website: www.thepfs.org/rdr

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Note: The CII Group has tried throughout the RDR debate to debate ideas widely in order to build a workable consensus for an RDR package in the public interest. As part of this process we have made public our ideas for debate and therefore we have decided to publish our submission to the RDR to help facilitate the continuing debate.

1. FOREWORD BY LORD HUNT OF WIRRAL, PRESIDENT OF THE CHARTERED INSURANCE INSTITUTE

As the leading professional body involved in the sector, the CII believes the industry can unite around the need for enhanced professionalism. We have played an active role throughout the process. In addition to our involvement in the pre-Discussion Paper working groups, we also contributed to the debate by commissioning an independent study by Deloitte and Touche to explore professionalism and professional bodies in the sector comparing it to other professions.

Our approach to the Retail Distribution Review (RDR) has been to help to build consensus within the industry around positions that will increase professionalism, build a more confident and trusted industry as viewed by the profession and customers, and ultimately ensure there is an expanding market and increasing numbers of consumers with access to high-quality advice. That is the prize for the RDR.

The RDR process inevitably implies considerable upheaval and change, which will be distracting and unsettling to our members. However, if the RDR is to achieve its objectives of building trust and confidence in the sector and expand the market, then this is a journey we must embark on. We are committed to playing our part in developing solutions and helping to guide our members through the process of change.

We accept that the FSA Discussion Paper (DP 07/1) is a starting point for the debate rather than a set of near-final proposals. The last few months have seen the debate developing with an emerging consensus developing around a number of issues – and disagreement over others, as you would expect.

Our response to the Discussion Paper attempts to summarise the ideas the CII has been putting out through a series of position papers since the summer, trying to develop an industry consensus as well as map out possible solutions. We do not believe this is the final word but we hope it has helped members and firms to develop their own responses.

Our main focus has been on professionalism – as a professional body we believe this to be a vital component in any package of reform – but we accept it is only part of any package of reform.

We look forward to the next stage of the process. Our work to develop our proposals for professionalism and a reformed professional body model will continue, as will our efforts to develop practical measures that help our members and firms manage the transition to the new post-RDR era of professionalism. Many are already embarking on this journey to increased professionalism and we will support them on their way.

2. SUMMARY

Background

The CII Group believes that the FSA's review offers retail financial services an **opportunity to develop solutions that enhance professionalism** within the sector and improve its standing in the public's hearts and minds - without the need for future regulatory imposition. We recognise that the RDR discussion paper (07/1) is **only the start of the process** but feel that it is important to begin early by developing **industry consensus** on positions that will lead to greater professionalism.

The retail investment distribution sector has many of the characteristics of other professions, notably complexity and information asymmetry. In common with law and medicine, **customers** in this sector **rely on the behaviour of individuals** to deliver them sound, objective information and advice and to act in their interests. **Trust is engendered in a profession** through the behaviour of its individual members and the actions of the professional bodies or independent regulators in setting, monitoring and disciplining against standards of technical and ethical behaviour. **High standards of qualification and continuous training** also play a critical part in maintaining the image and reputation of professionals. In economic terms the incentives for an individual to maintain the standards of the profession include both the positive incentives, such as higher than average earnings, status in society and a sense of community, and the fear of sanctions for not complying with the standards including public shaming, financial penalties and the ultimate sanction of being barred from the profession and being unable to practise.

Proposals

Our work in developing a response to the RDR has focused on ways in which the industry can **work together to increase professionalism**, build a more confident and trusted industry as viewed by the profession and customers, and ultimately ensure there is an **expanding market and increasing numbers of consumers with access to quality advice**. The proposals we have developed in order to achieve this objective have been published in a **series of position papers**. They include:

- the concept of **tiered professionalism** and a framework that works to improve standards across the existing distribution sector (from 'Professionalism & Reputation' – CII/Deloitte and Touche report June 2007);
- the creation of an effective **professional framework** to complement principles-based regulation (from Position Paper 1 & Position Paper 5). The suggested framework consists of:
 - a single **structure of professional standards** and a **common framework of ethics** which would apply to all for all retail financial services market personnel;
 - a **single, independent professional standards board**, with significant 'lay' representation, which would create, oversee and develop the professional standards. This would be **supported by the retail financial services sector, the regulator and strengthened professional bodies**;
 - **continuing professional development** whose form and content would be guided by the professional bodies;
 - a **new complaints handling function** to deal with professional malpractice issues, reporting to the professional standards board;

- a **disciplinary process**, comprising of meaningful sanctions, imposed by the professional standards board;
- a **professional approach to the identification of conflicts of interest** that promotes **transparency**, managed by the professional standards board (from Position Paper 4);
- a **standardised financial services qualification framework** to simplify what currently exists and to improve the public's understanding and confidence in dealing with adviser qualifications and designations (from Position Paper 2);
- a '**package of professionalism**' that is intended to drive a step-change in standards of qualifications and behaviour. The package includes:
 - **All advisers should join an appropriate professional body** and subscribe fully to its code of ethics and conduct, continuous professional development (CPD) and rigorous monitoring to ensure that these standards are being maintained
 - **The Diploma in Financial Planning** should be the **standard** qualification for all existing advisers above the primary advice tier (i.e. PFP/GFA) within six years;
 - Within **four years**, if all advisers above the primary advice tier in a firm are not Diploma holders, a mechanism for them to have **advice 'signed off'** by a Diploma qualified supervisor should be put in place for a further two years;
 - **Chartered Financial Planner** should be the standard for PFPs to aspire to (and be driven by market forces);
 - **All new advisers** should be required to achieve the current benchmark qualification (Certificate in Financial Planning) within 12 months and then adhere to the timescales applicable to existing advisers thereafter;
 - **Primary advisers** should be required to hold the current **Certificate in Financial Planning**.

These proposals aim at improving levels of professionalism not only through **increased standards of qualifications** but also through **a step-change in behaviour**. **Being professional is not just about passing exams.**

Supporting our Membership

In addition to our position papers, we have sought to help our members understand the RDR and support them as the process of change evolves. This has involved:

- **Informing and educating the membership** – Ensuring we support our members on the RDR and encourage them to engage with the RDR and think through the implications for their firms;
- **Roadshows** – The Personal Financial Society has a programme of over 60 autumn roadshows covering the RDR, as well as a number of collaborative events to debate RDR issues;
- **Member Surveys** – We have conducted two membership surveys in association with Ernst and Young to gauge the temperature with members and to inform our full response to the FSA.

The Prize for Reform

We believe that our **proposals represent a strong road map** for a number of elements of the RDR package, and provide an agenda around which the industry can build a **broad consensus**. Indeed this realistic and achievable programme we have outlined will only work with industry and regulatory support.

It is essential that there is a **realistic timetable for managing this transition**. We believe our programme for a four to six year timetable is the right balance of bringing about reform while avoiding the unintended consequence of an advice gap caused by an exodus from the industry.

In fact the timetable has already started as we **are already witnessing signs of market momentum** driving moves towards increased professionalism.

Whatever RDR package emerges in 2008, it is vital that it works in the public interest and not seen to be self-serving for the retail distribution sector. **The ultimate prize must be more engaged customers who feel greater trust and confidence in the sector.**

3. BACKGROUND TO THE RETAIL DISTRIBUTION REVIEW

We have at present a business model which is based on incentives which produce results which are unattractive to reputable providers, unattractive to their customers, and whose benefits to intermediaries are questionable. What are we going to do to change it?

Sir Callum McCarthy, Chairman of the FSA, September 2006 at Gleneagles

Why change? The Gleneagles challenge

The Financial Services Authority (FSA) launched the Retail Distribution Review in June 2006 in response to 'perceived problems' in the market for the distribution of retail investment products. The review involves the regulator, industry and consumer representatives working together to identify and overcome market inefficiencies in a manner attractive to both consumers and firms.

The CII Group has advocated a number of proposals which would, we believe, provide a step-change in terms of professionalism. We have not tried to answer in our response to the FSA all the questions posed by the Discussion Paper. As a professional body we believe we have a very specific mandate in terms of the RDR; however, we do not believe that it is in the public interest to maintain the status quo in retail distribution. The flaws in the sector go beyond improving professionalism – as Sir Callum McCarthy set out clearly in his Gleneagles speech, there is a wealth of evidence that the economic model which underpins retail distribution is not sustainable. Ned Cazelet has pointed out in his now famous paper in early 2006 entitled *Polly Put the Kettle On* that a significant proportion of so-called 'new' business appears to be regular premiums and single premiums that have been transferred from other providers, has undermined the profitability of the sector and undermined long-term relationships with customers. So there are strong economic imperatives for reform as well as a long-standing weakness in public trust and confidence which need to be addressed.

Individual advisers often look to their own unblemished track record with few or no complaints to their name and wonder why, from their vantage point, the system is in need of change. However, as Sir Callum McCarthy bluntly puts it in his Gleneagles speech:

"the sum picture is one that is incompatible with developing either a reputation for the industry as a whole, or a brand reputation for individual companies."

Therefore it is clear that the public interest requires change. But what change is required?

"...the advice industry has moved on. It is a much better place than it was a decade ago, and works to far higher professional standards. But as long as the government, the regulator, and industry commentators, continue to question the integrity of the advice profession, then we will struggle to build consumer confidence..."

Steve Young, Commercial Director, Sesame (Source: Sesame RDR White Paper)

“The need among UK consumers for truly independent, robust and trustworthy financial guidance has never been more intense. The levels of income and capital that certain sectors of the population have available for investing are at record levels. We firmly believe that a truly independent advisory sector is essential to the health, diversity and credibility of investment managers – and to the financial wellbeing of consumers. We welcome proposals that firms attaining the highest level of professionalism will enjoy a ‘regulatory dividend’ in the form of lighter-touch regulation and lower capital adequacy. This approach offers exciting opportunities to forward-thinking advisory firms, and suggests a genuine commitment by the regulator to support highly professional advisers and give them the recognition they deserve in the market place. The competitive, cost and regulatory challenges that advisory firms now face, mean they have to embrace a new level of professionalism if they are to survive in any significant numbers. The good news is that the regulator is offering unprecedented levels of support to firms that can demonstrate they are forward-looking, innovative and focused on the best interests of the client. Whether the promises of lighter-touch regulation for these well-managed firms will materialise, the sentiments being voices by the regulator are a step in the right direction.”

Extract from: *Surviving the Storm: Opportunities for investing advisory firms in a changing market* (JP Morgan Report August 2007)

4. ASSUMPTIONS

The Discussion Paper (07/1) produced by the FSA, but drawing on five industry and consumer working groups, set out a number of draft proposals. In preparing our position papers we have made a number of assumptions, based in part on the evolving debate in the past few months, which are set out below. We accept that following the FSA feedback statement we will need to re-examine our 'package for professionalism' in the light of any change in the proposed structure or other assumptions.

- We have assumed that the proposed General Financial Adviser tier is likely to either not survive or be temporary in nature;
- While we have drawn on the views of various parts of the financial services sector, our start and end point has been the public interest in the long term;
- If the RDR is to be successful then it must deliver greater public trust and confidence in the profession. This requires a step-change for both our members, the profession at large and professional bodies;
- To achieve the step-change to more professional bodies, mandatory membership should be considered to help provide the resources and the impetus to deliver this;
- Transparency should be at the heart of the industry in its dealings with customers;
- Higher standards of entry have broad support from within the industry;
- Some form of tiered professionalism is required. However, it is important that the 'labels' for the agreed tiers are properly tested with consumers – otherwise the RDR reforms will be undermined;
- The review of generic financial advice led by Otto Thoresen is expected to deliver its final report in Spring 2008. We believe that some form of "initial guidance" to consumers – if given real impetus – could play a major part in building financial capability and access to the advice market amongst an important segment of the public currently unadvised. The Thoresen Review conclusions need to fit closely to the RDR programme of actions.

5. OUR APPROACH: TO INFORM, GUIDE AND SUPPORT

There is a widespread view that the reputation and trust of the industry is undermining the health and prosperity of the sector and that public confidence needs to be re-established. We have taken an open minded view towards the FSA challenge in the RDR but support the approach to develop industry-led solutions.

Therefore prior to and following the publication of the RDR Discussion Paper in June 2007 we have undertaken a programme of action to develop thinking and solutions on some of the issues raised in the RDR discussion paper.

Fundamental to this is our belief that an industry consensus on the themes addressed in the paper is essential. Therefore as a professional body, we have developed proposals – principally around a concept of enhancing standards of professionalism - which could provide a consensus for the industry to support. This has involved developing proposals in a series of position papers summarised in a later section of our Response. These position papers covered:

Paper 1 – developing the **professional body model**;

Paper 2 – tackling the ‘**alphabet soup**’ of qualifications and designations;

Paper 3 – ‘**managing the transition**’ to new qualifications and standards of behaviour;

Paper 4 – addressing the issue of **conflicts of interest**;

Paper 5 – a **developed model of what professional bodies would need to do** in the post-RDR era.

In addition, we have sought to help our members understand the RDR and support them in their thinking and actions required as the process of change evolves. This entails a programme as follows:

Regular dialogue with key stakeholders

- Regular dialogue with key stakeholders in the RDR debate including the FSA, ABI, AIFA, BBA, IMA and others; as well as feedback from representatives of firms and individual members;
- This dialogue is central to our attempt to share our views as well as gathering the views of trade bodies and others.

A Cross-RDR Response Group

- We established a cross-CII Response Group on the RDR from nominations of the PFS Board and the Faculty of Life and Pensions to provide a sounding board for the CII to develop a response to the FSA Discussion Paper. The membership of the group is listed in Appendix A.

Member Surveys

- We have conducted two membership surveys in association with Ernst and Young to gauge the temperature with members and to inform our full response to the FSA. Our first survey in September produced over 800 responses, the results of which we published in October. The second survey – which received over 1330 responses was conducted in October and published in November – see Appendix B for details.

Informing and educating the membership

- Our early membership research showed a high percentage of members (never mind the industry as a whole) had not read the details of the proposals – hence the sustained effort to try to reach them to encourage them to engage;
- Ensuring we are proactive in helping to educate and support our members about the RDR to encourage them to think about the implications for them as individuals and firms;
- As part of this education and information role, we set up a dedicated website on the RDR with briefings, event information, web/podcasts and links to relevant websites. This can be accessed from both the CII and Personal Finance Society websites;
- We have also developed our thinking as to what support tools and information our members, particularly the smaller IFA firm or adviser, will need once the RDR process moves into the next phase in 2008;
- Publishing regular articles on the requirements that will be needed for advancing professionalism in the recent editions of our membership publications, the Journal and FS Magazine, as well as in the trade press.

Roadshows

- The Personal Financial Society has a programme of over 60 autumn roadshows covering the RDR, as well as a number of collaborative events including full and half day conferences with companies and media partners to debate and discuss RDR issues;
- The PFS conference in Birmingham on 13/14 November hosted a platform debate on RDR with prominent industry and FSA speakers. Over 300 attended the debate with a further 200 participating online.

Corporate Engagement

- As well as supporting our individual members we are helping corporate customers including major life companies, banks and advisory firms anticipate the business impact of RDR. This includes developing firms' thinking regarding employee up-skilling and developing an enhanced level of professionalism and standards.

6. THE CASE FOR PROFESSIONALISM

The CII Group believes that RDR represents a major opportunity for the retail distribution sector, believing it to be an opportune time for the industry to improve professional standards, and in so doing enhance market confidence. It sees as its mission to work with others to argue this case. We started this process by commissioning Deloitte and Touche to produce an independent report - **'Professionalism and Reputation'**, as a contribution to the RDR. This report was published in June 2007 and provides a comparative overview of the professionalism of financial services against those of other professions and sets out actions we need to take to ensure our industry raises its standards. It is understandable why some of our members regard the RDR with apprehension and concern, nevertheless we should grasp this opportunity to shape the process and ensure the outcome creates a step-change in levels of professionalism.

The financial services industry as a whole has signalled its general agreement to the need for a significant movement to higher standards. This was echoed by our membership survey earlier this year which had 1,600 respondents (the results were published in **'Professionalism and Reputation'**). These improvements, if they achieve the step change required, will help to make an enduring impact on the quality of financial advice in this country.

Professions play an important part in our society, in particular in a UK economy where the need for enhanced skills are recognised and being advanced. However most of the traditional professions have found that they have had to adapt and change in recent years in response to changing social patterns and commercial pressures. Financial services is no exception.

The retail investment distribution sector has many of the characteristics of other professions, notably complexity and information asymmetry. In common with medicine and the law, customers in this sector rely on the behaviour of individuals to deliver sound, objective information and advice and to act in their interests. Trust is engendered in a profession through the behaviour of its individual members and the actions of the professional bodies or independent regulators in setting, monitoring and disciplining against standards of technical and ethical behaviour. High standards of qualification and on-going training also play a critical part in maintaining the image and reputation of professionals. In economic terms the incentives for an individual to maintain the standards of the profession can be both positive such as: higher than average earnings, status in society and a sense of community; as well as negative such as public shaming, financial penalties and the ultimate sanction of being barred from the profession and being unable to practise.

'Professionalism and Reputation' advocated the concept of tiered professionalism – an approach reflected in the RDR Discussion Paper. The framework affords the opportunity to raise standards across the existing distribution sector while developing new standards for emerging sales and service models. It has a strong fit with many other industry themes and along with other changes anticipated to flow from the RDR should present a significant opportunity for the industry to once again engage with and engender the trust of the financial consumer.

The findings of this study confirm that there is significant need and appetite for change in the way in which professional standards are developed, applied and monitored in the UK retail investment distribution sector. However, it is widely recognised that incentives drive behaviour and that changing both incentives and behaviour in this sector is difficult. The FSA has recognised that a number of factors could combine to change behaviour – professionalism is just one aspect of the change programme.

In our view, as well as reforming practice so as to better serve the public, it is a priority that arrangements should be put in place to enable regulated firms to have the assurance that those coming forward to pursue careers in retail financial services have the right attitudes, knowledge and

professional pride for their roles. The ideas which follow are designed therefore to further the public interest in two senses: the financial welfare of the public, the users of financial services, which must depend in large part on the degree of trust they are able to have in those providing the services to them, and the economic benefit which accrues from a strong, respected financial services business.

A professional body or bodies could fill these gaps. We believe that, were it to do so effectively, the result would be a significant step-change in practice standards. But effectiveness of the professional body in applying standards to those not already convinced and not willing to be professional voluntarily, would be conditional on regulatory and industry support.

This approach is consistent with the FSA's principles-based approach which highlights the need for standards for individuals, the area of standards-setting which could be uniquely a professional body's contribution to the sector. Employers need to be able to rely on the availability of professionally competent individuals to perform the various sector roles where risk is most likely to arise; our submission is that a professional body, established with the unequivocal backing of both the regulator and the sector, could provide the level of reliability needed.

Case Study: Chartered Firms

Professional firms seek knowledge and capability and adhere to an objective code of ethical practice. Many look to improve their overall performance by encouraging staff to enhance their own skills, with Personal Finance Society/CII membership and CII qualifications at the heart of their learning activity and continuing professional development.

The pinnacle of individual achievement is the award of Chartered Financial Planner status, which is conferred by the CII and available to eligible Personal Finance Society members as a result of the Society's link to the CII. To date more than 1,000 individual financial advisers have attained this title, with many more currently working towards it.

To support leading firms in the financial advice sector, and to recognise their adherence to the highest standards of professional practice, the CII has secured agreement from the Privy Council to enable firms to call themselves 'Chartered Financial Planners'.

This corporate Chartered status is of major significance. It will reinforce the importance of professionalism in a fast-moving and competitive market. It will also help place firms of advisers on a par with other professional practices, such as accountants and solicitors.

Corporate Chartered status will be recognised by consumers (both individuals and businesses) as a mark of professionalism. It will carry weight with other professional organisations and distinguish firms from their competitors and peers.

It will also help firms attract and retain the best staff. Talented professionals want to work for ambitious, principled organisations, and Corporate Chartered status is a clear indicator of the professional standing of a potential employer.

Chartered Financial Planner status is the most important step that advisers can take to help turn our industry into a profession. Private clients want good quality advice more than ever before, and the winners will be the advisers who have sound business models and good professional qualifications.

Tim Ames, Director, Cathedral Financial Management Ltd (Source: Sesame Press Release 22/11/07)

We recognise that it is imperative for our advisers to have the right technical knowledge. Teaming up with the CII will deliver that knowledge, while I see PFS membership as an ideal way for our wealth advisers to develop their professionalism. As an industry we need to do more to boost skills and demonstrate our commitment to raising standards.

Andrew Fisher, Chief Executive, Towry Law (Source: CII Press Release 4/4/07)

We have always prided ourselves on being thoroughly professional in everything we do, and to receive external recognition in this way is very gratifying. As Chartered Financial Planners, we can signal our commitment to the highest levels of service to our customers.

Nick Scarrett, Managing Director, B-A Financial (Source: CII Press Release 3/9/07)

As Chartered Financial Planners we are signalling our commitment to providing the highest levels of service to our clients. It will also enable the firm to attract and retain the best talent in the financial services industry as a commitment to ongoing career development is an essential part of obtaining Chartered status.

Gillian Bardin, Managing Director, Taylor Patterson (Source: Taylor Patterson Press Release 15/11/2007)

In an industry as important as the provision of financial advice, most rational people would expect to find stringent qualification standards. The reality, regrettably, is otherwise. The hurdles to becoming a financial adviser are astonishingly low. The relevant examination, the Certificate of Financial Planning, can be attained after relatively little study and absolutely no practical experience. Having passed this, there is often little inclination or incentive for advisers to attain further qualifications or professional development. The consequence is an industry whose levels of knowledge and professionalism can be woefully inadequate. If the industry wishes to be seen as a profession then it requires professionally qualified individuals, providing a professional service to clients and being paid in direct relation to the service they provide. The industry is a long way short of that.

Andrew Fisher, Chief Executive, Towry Law (Source: Skills Matters Issue 1, FSSC)

The Retail Distribution Review has increased the focus on chartered status, but our research demonstrates that the drive towards achieving higher levels of qualifications is already underway. We want the advice profession to be seen in the same light as accountants and solicitors, so it is very pleasing to see the appetite amongst advisers in pursuit of higher professional standards. We welcome chartered status as it is a cornerstone of a wider professionalism drive, which Sesame and its advisers are seeking to lead.

Paul Dawson, Head of Sesame Learning (Source: Sesame Press Release 22/11/07)

Sandy Scott, director-general [sic] of The Chartered Insurance Institute, believes the financial services industry must raise its level of professionalism to tackle its reputational issues and instil a culture of trust among consumers. I agree.

In my dictionary, the definition of professionalism comes in two parts. The first, the industry has definitely achieved – ‘following an activity for financial gain’. But the second – ‘having the skill, competence and character expected of a highly trained profession’ – is something the industry needs to address urgently.

Scott Coghill, Director, Compliance Point (Source: Mortgage Strategy 15/10/07)

7. OUR POLICY PROPOSALS FOR THE RDR

Two thirds of adults “do not know enough about pensions and investments to choose one suitable for their circumstances without consulting a financial adviser, yet levels of trust and perceived professionalism are low and the reputation of the financial services industry is poor.”

(Source: FSA Risk Outlook 2007)

7.1 “PROFESSIONALISM AND REPUTATION” (JUNE 2007): CII RESEARCH PRIOR TO THE RDR DISCUSSION PAPER

Professionalism and Reputation Paper (June 2007)

The CII Group commissioned Deloitte & Touche to look at possible future frameworks for professional standards. This report was published in June 2007, in part as a contribution to the debate on retail distribution but also as part of our wider drive to promote professional standards.

This study's findings confirm that there is significant need and appetite for change in the way in which professional standards are developed, applied and monitored in the UK retail investment distribution sector. The paper explores various approaches to professionalism in the financial services sector and then systematically compares this with other customer-serving professions including the law, accountancy and architecture. The report found that:

- The UK financial services distribution sector is the most highly regulated in the world and yet has a generally poor reputation among consumers, the media and Government. It has been widely criticised for its lack of standards of behaviour and for low technical training;
- Small distribution firms are considered to operate “below the radar” of the regulator and of professional bodies;
- The impact of incentives on behaviour is seen to be at the heart of the issue with a lack of transparency and complexity being part of the problem;
- There is also a lack of clarity in the status of individuals and firms that does not encourage consumers to seek out more professional firms and does not incentivise firms to become more professional;
- The study evaluated various approaches to professionalism and prescribes a framework labelled ‘Tiered Professionalism’ which entails different tiers of professional standards reflecting alternative service models. This framework would see changed roles for three key players:
 - **Professional bodies:** would have a greater role than presently, responsible for setting ethical and technical standards including a Code of Ethics, and providing recognised qualification and associated continuous professional development through examinations that are defined and designated by the FSSC, all tiered to reflect the different levels of technical skill necessary to deliver the appropriate service;
 - **Professional Standards Body:** the professional bodies would establish a single, independent board to enforce ethical standards consistently across all sales/advice models. This would monitor and discipline individuals with procedures reflecting the different risks inherent in the different tiers of professionalism;
 - **FSA:** would continue to monitor and enforce authorised firms but as it moves towards more principles-based regulation, it would confirm guidance on technical and ethical standards to the professional bodies. The regulator would also ostensibly require individuals offering full

or specialist advice would be required to maintain membership in a professional body, whilst voluntary/lower level membership would be available to individuals offering more limited services;

The study proposed the following key actions:

- An industry-wide group will need to be formed to define further and drive forward professionalism within the sector. This would also be critical to obtain industry buy-in to the proposals;
- Clarification and embedding into FSA principles and rules of the different tiers of service. For standards to be fully developed, it must be clear that there will be a commercial or government-led response that will implement the standards;
- The development of a professional standards board, including a constitution clarifying its roles with respect to the FSA, professional bodies, and the professionals it polices. This would require a detailed costing of the establishment, and details of the enhanced role of the professional bodies. The objective should be to achieve a position of at least neutral costs as costs are transferred from the FSA to other bodies;
- Clarification of the respective roles of the FSA, the professional bodies and a professional standards board. This includes the adaptation of FSA rules to require compulsory membership of a professional body for those delivering certain services;
- A further review and development of examination standards. This may not result in a significant change to examinations but options for transitional arrangements will need to be considered;
- Development and agreement of the timing of changes and any necessary transitional arrangements;
- Preparation of a communication programme to ensure that changes are widely publicised and consumers and other stakeholders start to understand the changes that they can expect to see in the way in which the market operates.

This report was submitted to the FSA in June 2007.

If you want to be seen alongside other professionals, I think this route [becoming professionally qualified] is the only option. People recognise that you need to get more qualified...I think that the payback comes really quickly after making the changes.

Jason Witcombe, Director, Evolve Financial Planning (Source: Money Marketing 26/7/07)

7.2 CII POSITION PAPERS

Since the publication of the FSA discussion paper (DP), we have published a number of position papers to help lead and inform the debate both inside the industry as well part of the wider public policy debate. This is to ensure that public interest issues remain to the fore. This section summarises the substance of the five papers.

We believe that the proposals set out in the five papers represent a realistic 'package for professionalism' which the industry, trade and professional bodies and the regulator can find common ground in the public interest.

Position Paper 1: A Professional Body in Financial Services?

The first position paper takes as its cue proposals in the DP, and calls for the establishment of a professional body which could achieve the desired outcomes more effectively and with significant advantage to the consumer:

- it would address directly what is seen by many as the weakest aspect of the current retail financial services regulatory framework: the application of professional standards covering individuals;
- it would invite a partnership between industry practitioners and the professional bodies to establish a new industry culture, as a foundation for building trust and confidence.

Since there has been no pressing desire to create a coherent set of industry-sponsored recognised professional standards, the checks and balances on behaviour that such standards would have supplied have been provided by other mechanisms. In practice, this has fallen primarily to the FSA and its predecessor regulators, which have regulated firms and required them to control individuals, under the threat of regulatory sanction. We believe that a professional body could achieve the desired outcomes more effectively and with significant advantage to the consumer. It would address directly what is seen by many as the weakest aspect of the current retail financial services regulatory framework, the application of professional standards in the activity of individuals, whether of their own volition or as a consequence of management or supervision. It would invite a partnership between industry practitioners and the professional body to establish a new industry culture, sensitive to and understanding of the public good, as a foundation for building trust and confidence.

After analysing various fundamental principles of professionalism, the paper then proposes a series of key measures:

- A single framework of ethics and tiered technical and skills-based standards for individual retail financial services market practitioners related to defined sector functions;
- A single, independent professional standards board for the retail financial services sector, whose function would be to create, oversee and develop these standards;
- Recognition by the retail financial services sector and the regulator of a professional body (or bodies), whose function would be to support this new professional framework, applying the standards to their members, overseeing new criteria for entry to the sector and issuing practising certificates;
- More specified continuing professional development and practice standards support;
- New complaints handling functions, reporting to the professional standards board as well as the professional body's own governing board;

- The ability to deal with serious breaches via meaningful sanctions; and
- An independent disciplinary function, with substantial public interest representation.

We would see implementation of the ideas in this paper as a phased programme, perhaps starting with financial advisers but moving on to encompass all sector functions relevant to service to the public. The substantial support of all stakeholders – the industry, consumers, regulators and Government is essential for successful implementation.

The discussions are at an early stage but already The Chartered Insurance Institute has put forward some interesting and quite radical proposals, including an annually renewable certificate to be able to advise and a central body to monitor professional standards.

Mike Morrison, Winterthur Pensions Strategy Manager (Source: Money Marketing 1/11/07)

Increased professionalism in retail advice should underpin improvements for consumers and help to address reputational issues in the sector. Advisers/sales staff should be suitably qualified for their specific role or service. Industry, professional bodies and the FSA should explore how they can better collaborate to encourage higher standards and bring about more effective action against unprofessional standards. Mandatory membership of a professional body for advisers and the commitment to a code of ethics and more formal continuous professional development could help improve standards. However, there would need to be more effective monitoring and enforcement of advisers' professional conduct for this to be effective.

Peter Tyler, Director, British Bankers' Association (Source: Financial Adviser 22/11/07)

Position Paper 2: Alphabet Soup – A Standardised Qualification Framework

A contributing factor to low public confidence is the lack of clarity in the financial sector's system of qualifications. Consumers find it difficult to know whether financial advisers are suitably qualified as there is an 'alphabet soup' of qualifications.

This paper attempts to tackle the issue of standard qualifications within financial services. It sets out the CII's ideas for improving the public's understanding of a financial adviser's qualifications through the creation of a simplified common framework of qualifications. We hope that this set of ideas will stimulate debate in industry circles – where there is strong support for awarding bodies working together constructively to achieve clarity and greater simplicity in the public interest.

- The paper recognises that consumers and employers alike need easily recognisable qualifications they can trust;
- a standardised qualification framework is then proposed using the framework of qualifications as is currently being developed by the Qualifications and Curriculum Authority (QCA). The CII suggests leading an initiative among the financial services awarding bodies to develop common recognisable descriptors for the qualifications which would be identifiable and comprehensible to the layperson;
- the CII is inviting other awarding bodies to join them in working together in creating this approach in the form of an industry framework for financial services qualifications;
- this would require all qualifications to be subject to the quality control mechanisms of the QCA whether under the existing National Qualifications Framework (NQF) or the proposed Qualifications and Credit Framework (QCF); and mapped, where appropriate, to the FSSC National Occupational and Appropriate Examinations Standards;
- the approach does not entail a single professional or awarding body. We instead think the sector should develop a framework that can apply to all qualifications providers. This would work in much the same way as GCSEs and A-level qualifications, or their Scottish equivalents, where qualifications are standardised across the range of examining bodies that offer them in the UK.

In other industries, you become a chartered accountant or a solicitor, but in our industry, you have an alphabet soup. I hope the RDR will establish a basic benchmark. We must do what we can to improve customer confidence in the industry.

Ashley Clark, Director, NeedAnAdvisor.com (Source: Mortgage Solutions 15/10/07)

There are nine or ten, possibly eleven bodies and 43 different types of qualification. While a single organisation would be anti-competitive, there needs to be greater co-operation on how exams are delivered.

Roderic Rennison, Group Corporate Director, The Thinc Group (Source: Mortgage Solutions – 2/7/07)

The array of qualifications available to advisers is not doing them any favours and is eroding public trust in the profession.

Stuart Bayliss, Director, Annuity Direct (Source: Money Management November 2007)

There are far too many qualifications, too many Mickey Mouse qualifications and the consumer has little idea how to distinguish qualifications of meaning from qualifications that count for nothing. As part of its response to the retail distribution review, the CII is demanding an end to the "alphabet soup of qualifications". The CII, quite rightly, believes that the plethora of qualifications is "a barrier to consumer understanding and also industry trust". Its proposal is for all the relevant awarding organisations to bang their heads together and come up with a simplified common financial services qualifications framework, one that consumers can understand and trust... [Dr] Scott said such a common approach to financial qualifications would be "a clear signal that the financial services industry is sorting out its own problems." I agree. I trust the CII's wish is granted. An industry based around an army of professionally qualified advisers is truly the way forward. As my mum would say: "never mind the width, feel the quality".

Jeff Prestridge, Journalist (Source: FT Adviser – 18/10/07)

To its credit the CII has suggested developing a single framework for all financial advising qualifications.

(Source: **Comment**, Financial Adviser – Careers Extra 25/10/07)

Position Paper 3: Managing the Transition

The RDR proposes that financial advisers should be trained and qualified to a higher level than at present. This is partly a recognition that standards should be improved and partly a means of restoring consumers' faith in financial advice, following a number of reputational problems in the past. The industry, as a whole, agrees with this view and has signalled its commitment to move to higher standards as set out in the recommendations of the working groups which fed into the Discussion Paper. Qualifications are only part of the story; standards of behaviour, through membership of a professional body which commits members to a robust code of ethics and formalised, rigorous continuous personal development (CPD), are also integral to raising standards.

Professionalism must be seen as a package of measures, not just increased qualifications.

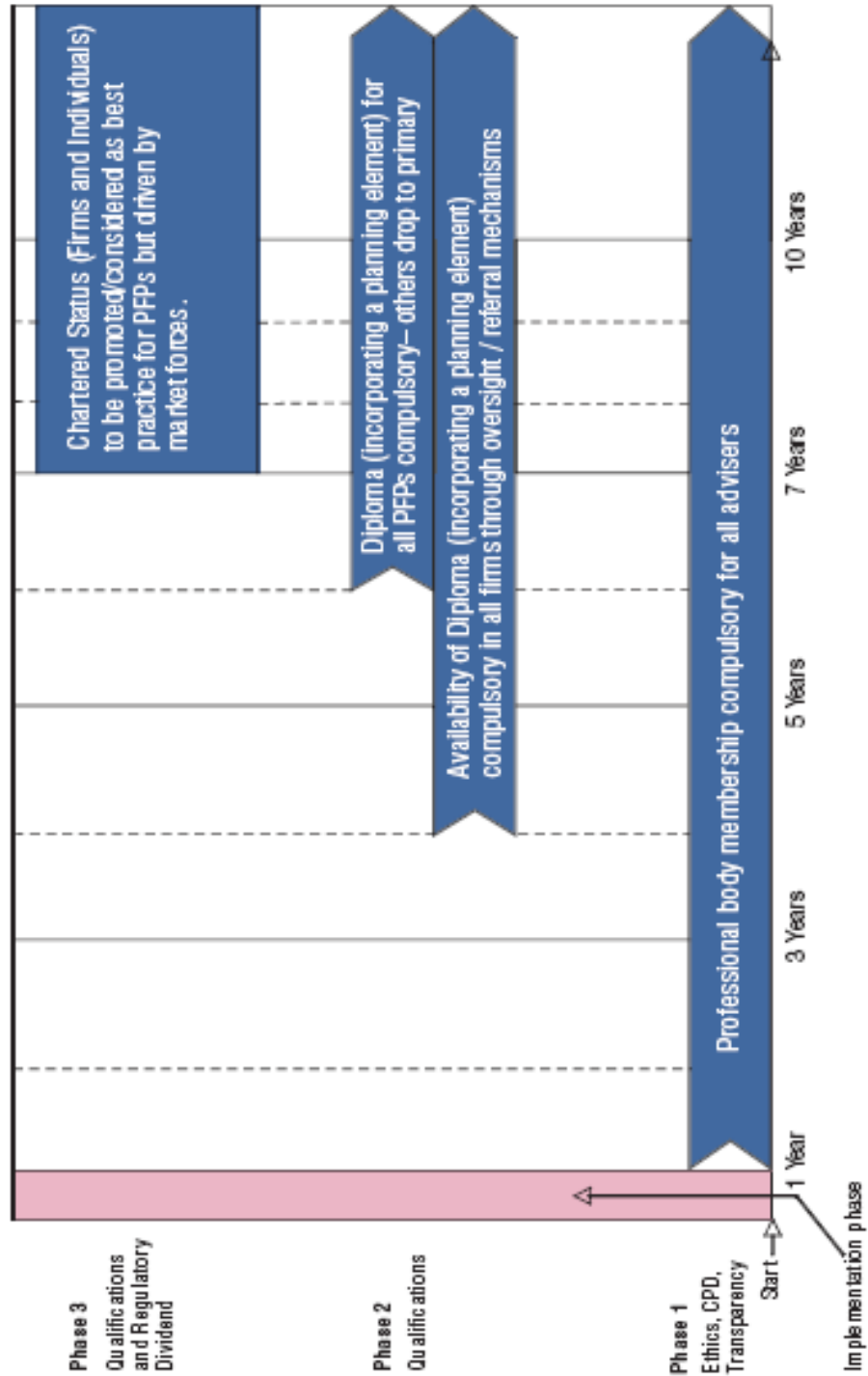
In order to drive the step-change in standards, the CII proposes a review of the minimum benchmark qualification requirements and the introduction of professional body membership as the norm for financial advisers. Specifically the CII proposes:

- The Diploma in Financial Planning (incorporating a test of application of knowledge) should be the standard for all existing advisers above the primary advice tier within six years;
- Within four years, if all advisers above the primary advice tier in a firm are not Diploma holders, a mechanism for them to have advice 'signed off' by a Diploma qualified supervisor should be put in place for a further two years;
- Ultimately, Chartered Financial Planner should be the standard for PFPs to aspire to, as suggested in the RDR DP07/1. We believe it is a necessary aim to increase the number of chartered advisers if financial advice is to be considered a true profession over time;
- All new advisers should be required to achieve the current benchmark qualification (Certificate in Financial Planning) within 12 months and then adhere to the timescales applicable to existing advisers thereafter;
- Primary advisers should be required to hold the current Certificate in Financial Planning, subject to the nature of primary advice being defined more effectively;
- All advisers should join an appropriate professional body and subscribe fully to its code of ethics and conduct, continuous professional development (CPD) and rigorous monitoring to ensure that these standards are being maintained; and
- The industry and the FSA to confirm that there is a consensus for mandatory membership of a professional body within the framework described in CII position paper 1 ('A professional body for retail financial services?'). Our membership survey showed 84% thought membership should be mandatory.

This position paper also maps out how a 'package of professionalism' might be developed, gaining the support of the industry and the FSA. A table describing the transition is set out on page 24. We see this as a package with a number of essential ingredients: qualifications, continuing professional development and a commitment to ethical standards, all of which would be subject to rigorous monitoring and testing and ultimately disciplinary sanctions if individuals or firms fall short.

We believe that this 'package for professionalism' represents a realistic and workable programme of change – and there are already signs of market movement to make it happen. The results of our member survey this November – with a response from over 1300 members – shows strong support for raising qualification standards for the proposed PFP tier, with 6 out of 10 respondents suggesting a four year timeframe was reasonable.

Suggested RDR transition to professional financial planning – existing advisers



MANAGING TRANSITION: OUR MEMBERS' VIEWS

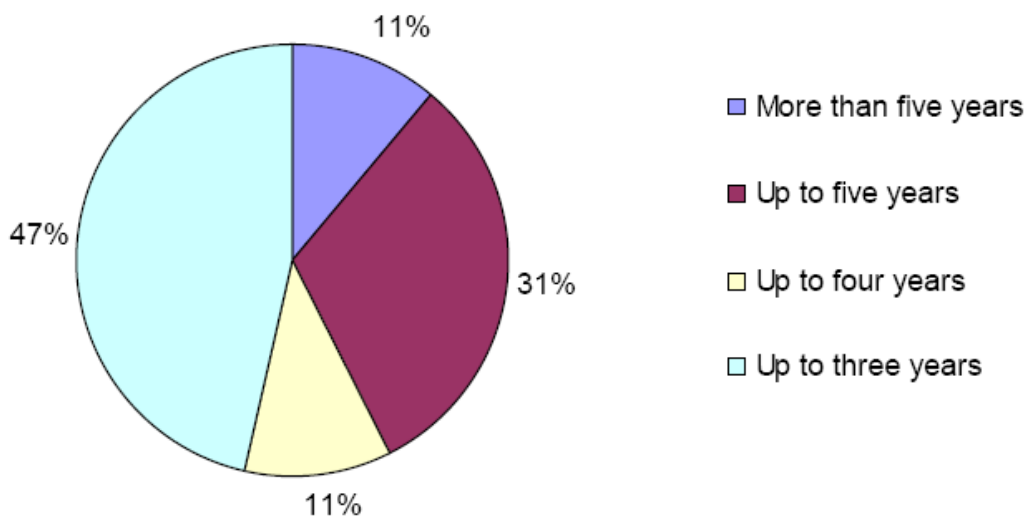
83% of members favoured the Diploma in Financial Planning or higher for the proposed professional financial planner tier.

What do you believe should be the minimum qualification for the Professional Financial Planner tier?

- A new minimum qualification
- Certificate in Financial Planning/AFC
- Chartered/Advanced Diploma in Financial Planning
- Diploma in Financial Planning/AFC
- No minimum qualification/experience based



58% felt advisers should be given up to four years to achieve new minimum qualifications; with a further 31% felt it should be up to five years. Only 1 in 10 thought that more than five years was needed.



Source: CII/PFS Membership Survey, Nov 2007

If we are to be recognised as a profession we need to have qualifications at a professional level. Can you name one profession that demands less than chartered? All the financial service professions, including accountancy and law require their professional members to be at this level.

Peter Williams, Head of Industry Development, Aegon UK (Source: Financial Advisor 11/10/07)

We do not think chartered status is necessary but we think the bar should be raised to diploma standard. We should give incentives to those people with the experience to take the diploma and there should be a healthy transitional phases to allow them time to do it. I would challenge IFAs and say is the diploma really too big an ask? Even if you have been an adviser for 20 years you will still need to take the exam. You can't hold yourself as a professional and say you have no time to do the exam. It should be easy for these people to do.

David Barral, Distribution Director, Norwich Union (Source: IFA Online – 17/10/07)

If financial advice is to obtain the status attributed to other professions, then advisory firms must ensure their advisers meet higher standards. Such standards will not come immediately and we have to recognise the needs of mature and experienced advisers, as well as encouraging newcomers to obtain more demanding levels of qualification.

Simon Hudson, Chief Executive, Tenet (Source: Money Marketing – 18/10/07)

In the latest Sesame Learning study 25 per cent of advisers said they currently have either diploma or advanced diploma examinations, with 24% working towards diploma status and 22% working towards diploma/chartered status. (41% are likely to seek chartered status for themselves)

(Source: **Sesame** Press Release 22/11/07)

[He] said that he is "all in favour" of setting the bar higher than the current level. He equated the current standards to a step-over hurdle rather than the proposed one which would require a running jump. He said: "I am passionately behind raising the current standards of qualification and standards, which have been too low for too long. Mr Bamford believes that the minimum qualification should be the diploma, but stresses that the issue of raising standards is not just about raising qualifications. He added "It goes hand in hand with a common code of practice."

Nick Bamford, joint manager of Informed Choice (Source: FA Careers Adviser – article by Amanda Vermeulen 29/11/07)

Position Paper 4: Managing Conflicts of Interest

Much of the debate over the RDR has focused on the contentious issue of commission. As a professional body we believe this is an issue to be debated by the industry but it has two aspects: distribution strategy and professional practice issues. While the former is primarily a matter for product providers; the latter concerns professional bodies and their members, and is the subject of this paper. It starts from the principle that professionalism means transparency in all dealings.

As Lord Hunt, President of the CII, put it in his introduction to the paper, *“Where there are those operating outside the requirements of a professional body, there is a public interest argument for market rules that require conflicts to be minimised – hence the FSA’s Retail Distribution Review, that is grappling with these very questions. This paper sets out some thoughts which we hope will contribute to the shape of reform. I do accept that the way the CII approaches the management of conflicts of interest is not the only one; it is but one contribution to a debate with significant implications for our industry. Nevertheless, I hope it will give the industry some thoughts on enshrining the management of conflicts of interest properly in a professional code of conduct.”*

We recommend in this paper that:

- In parallel with the work arising from the RDR on the issue of commission, a professional approach to the identification and management of conflicts of interest should also be considered;
- A professional approach should consist of a ‘conflicts code’ and guidance to both firms and individuals;
- A key principle of this professional approach is transparency;
- The approach to conflicts adopted by the CII (described in this paper) could be used as an example to aid discussion at this stage;
- The separate suggestions in the CII first position paper, and a future paper on the professional body structure, would create a professional framework for retail financial services within which a conflicts policy could be communicated and enforced;
- The independent single professional standards board, which we suggested in our first position paper, should address the issue of conflicts of interest as a priority;
- A professional body (or bodies), in this work, should take account of the law of agency, and address the question the duties owed by advisers to their clients.

We believe that the issue of conflicts of interest and how they are managed is central to any discussion of the future of retail financial services. The CII believes it has a strong role to play in helping the industry deliver the step change needed to convince regulators, policy makers and consumers that conflicts in the industry have been identified and that they are being managed appropriately.

Position Paper 5: Building Trust and Confidence in Retail Financial Services: A New Professional Framework

The CII's first position paper *A professional body for retail financial services?*, published in October sets out an overview of the possible professional response to the RDR and to the challenge of establishing, against the background of more principles based regulation, appropriate and consistent standards of knowledge and behaviour across the retail financial services industry in its dealings with the public.

This paper establishes in more detail the characteristics of a single professional standards board and professional bodies to be the custodian of these standards, along the lines of arrangements operating in other professional sectors. It sets out in summary the possible models for the professional body identified in the consultancy exercise, carried out by Deloitte on behalf of the CII, to establish an appropriate strategic framework for retail financial services professionalism. It then develops one model – that which appeared in the first position paper – and goes on to suggest the next steps towards an implementation process.

Clearly, there are organisations which carry out part of the remit of the professional body, mainly in providing examinations and qualifications. But improvements in practice, conduct of business, the implications of ethical precepts, supervision, control and discipline have been left to successive regulators, whose requirements have often been vigorously contested, despite the valid principles which frequently lie behind the regulatory suggestions. Much of the comment on the current RDR proposals is of this nature.

Our recommendation is that the industry should now use the opportunity of the RDR to work together to create an effective professional framework to complement principles-based regulation, along the lines set out in this paper.

The new framework, in summary, would consist of:

- A single structure of professional standards for all retail financial services market personnel engaging with customers, comprising a hierarchy of educational and technical standards related to defined sector job function, and a common framework of ethics which would apply to all;
- A single, independent professional standards board, with significant 'lay' representation, supported by the retail financial services sector and the regulator, whose function would be to create, oversee and develop these standards including an independent disciplinary function with substantial public interest representation;
- Recognition, by the professional standards board, the retail financial services sector and the regulator, of professional bodies, whose function would be to support this new professional framework, applying the standards to their members, overseeing criteria for entry to and continuance in the sector and issuing practising certificates;
- Continuing professional development whose form and content would be guided by the professional bodies, and practice standards support;
- New complaints handling functions to deal with professional malpractice issues, reporting to the professional standards board;
- The ability to deal with serious breaches of professional standards arising from either complaints or disciplinary processes via meaningful sanctions imposed by the professional standards board.

The time is undoubtedly right for a renewed attempt to establish a more professional culture within the industry, with the primary aim of better service to the public.

It would be essential to ensure there is clear demarcation between regulatory body activities and the activities of the professional body(ies).

The means of establishing mandatory professional body membership – regulatory incentivisation or industry enforcement or both – needs to be decided.

There will be a cost – effectively the cost of professional body membership for all employees and support for them through exams and continued learning plus the cost of the new professional standards regime. We do not anticipate that these costs will, in real terms, be any higher than costs of membership or qualifications today. It is possible that savings in the cost of firms' own complaints handling and training and competence regimes could be identified as the new professional body service is developed. But the main benefits are far greater: an independent endorsement that a firm – or even better, the whole retail market – has embraced professional practice and an emerging awareness that public trust, intangible but essential, is on an upward path.

8. WHAT NOW? OUR APPROACH GOING FORWARD

"I have set out what the FSA intends to do. I will be very interested in seeing whether the industry can develop a full and appropriate response – something which would appear entirely in keeping with their repeated statements about their wish to improve their brand and performance".

Sir Callum McCarthy, Chairman, FSA at Gleneagles, September 2006

We believe that the 'package for professionalism' outlined in our position papers represent a strong road map for a number of elements of the RDR package, and provides an agenda around which the industry can build a broad consensus.

As a professional body we have tried to develop positions on issues within our locus. Going forward, we hope other trade bodies and industry generally will come to a consensus on an overall RDR package that provides a realistic consensus on reform that can achieve the combined prizes of growing the size of the advice market and increasing the reputation of the sector. This would result in higher levels of customer trust and confidence – and a more professional approach.

A realistic timetable for transition ...and not just about exams

We think it is essential that the transition period is realistic and constitutes a step-change to a higher level of professionalism. We believe our programme for a four to six year timetable is the right balance of bringing about reform while avoiding the unintended consequence of an advice gap caused by an exodus from the industry.

We believe that this is about a 'package for professionalism' and is as much about a step-change in standards of behaviour as it is about standards of qualifications.

Support for the sector to prepare for change....

As the FSA considers these issues for its feedback statements in April and October 2008, we will continue to develop our ideas to 'manage the transition' with our members as well as firms to build workable solutions. There are already signs of market momentum in many quarters with some firms as well as our members embarking on the journey to increased professionalism – and we will endeavour to help them on their way. In early 2008, we will be developing further the support proposals we set out in detail in CII RDR paper 3 – 'Managing the Transition'.

Support for a consensus is key....and should be industry led

We believe that the package for professionalism we have outlined is a realistic and achievable programme – but it will only work with industry and FSA support. We hope that there will be support for these ideas from firms, individual practitioners and the regulator. CII President Lord Hunt has talked of a 'coalition of the willing' – let us ensure that this is so.

We have received a lot of feedback from individual members, firms, trade and professional bodies, on our ideas which have been very supportive of the general thrust but have raised a number of interesting specific points which we intend to take on board as we refine these ideas in 2008 in the light of the evolving debate.

And the proposals must serve the public interest ...

Whatever RDR package emerges in 2008, it is vital that it works in the public interest and not seen to be self-serving for the retail distribution sector. The ultimate objective must be more engaged customers who feel greater trust and confidence in the sector.

As Lord Hunt, President of the CII has said: ***“Professionalism is not simply about passing exams, important though this is. It is a declaration to the public at large that the advice given by an individual or firm is of the highest quality; is based solely on the needs of the customer; is provided by someone who is not exceeding his or her level of competence; is governed by a code of ethics; and is subject to consistent monitoring, with effective discipline applied to those who transgress. It is, therefore a commitment to an overall standard of excellence”.***

CII Group

December 2007

APPENDIX A: CROSS-CII RDR RESPONSE GROUP

Richard Anderson, Wealth Management Account Director, Scottish Widows (Chairman)

Peter Williams, Head of Industry Development, AEGON

Steve Folkard, Head of Pensions & Savings, AXA

Matt Hotson, Strategy Director, L&G

Carole Nicholls, Principal, Nicholls Stevens

Stephen Gay, Director of Distribution Development, Norwich Union

Paul Simpson, HR Director, Life Distribution, Norwich Union

Chris Robinson, Director of Face to Face, Prudential

Chris Thorndycraft, Head of Channel Development, Prudential

Ken Davy, Chairman, SimplyBiz

Robert Reid, Managing Director, Syndaxi Financial Planning

Paul Lothian, Director, Verus Chartered Financial Planners

Secretariat: The Chartered Insurance Institute

David Thomson, Director, Policy & Public Affairs

Steve Jenkins, Director, Financial Services Markets

Rebecca Prestage, Manager, Financial Services Faculties

Disclaimer

The CII Response Group were asked to contribute their views in a personal capacity and were not bound by collective responsibility for the views contained in the CII response.

The CII is grateful to Richard Anderson and members for contributing their time and ideas to the group.

Remit

The group was nominated via the PFS Board and the CII Faculty of Life and Pensions to provide a sounding board to the CII Group in developing ideas and a response to the FSA.

APPENDIX B: QUANTITATIVE SURVEY DATA – FROM CII MEMBERSHIP SURVEYS

As part of the process of engagement with our membership the CII Group conducted two online membership surveys on the RDR, covering the Personal Finance Society and CII Life and Pensions Faculty members, comprising over 20,000 online-registered members.

The first survey was conducted in August and published in September. Over 800 members responded. A second survey was conducted in October, published in November with 1330 members contributing a response.

We intend to continue the surveys in the New Year to maintain the ‘temperature check’ of our membership and their attitudes to developing proposals.

This appendix provides summaries of both surveys in reverse order – and provides key slides from the most recent survey.

The surveys were conducted in association with Ernst and Young and we wish to offer our thanks for their support in this process.

Survey Two: November 2007

Summary

- *A representative survey of over 1300 CII/PFS members revealed that the majority want to improve their qualifications in anticipation of the retail distribution review changes (RDR);*
- *Over four-fifths (84%) of members support mandatory professional body membership for advisers. This is up 6% from the first survey;*
- *Two-thirds (67%) believe that better qualifications mean higher quality of service to clients;*
- *The vast majority (93%) believe the term “independent” should mean the adviser covers the “whole of the market”;*
- *An overwhelming majority supported minimum qualifications for each financial advice tier. A strong majority (83%) believe this should be the Diploma level or above for advisers at the Professional Financial Planner (PFP) tier, and 58% it should take at least four years, with another 31% saying it should be five years.*

Survey Details

Responses were received from over 1330 members in October, up from 800 in the September poll:

- 1173 (88%) were authorised financial advisers, of which 96% were IFAs (77% directly and 25% indirectly authorised), and the rest single- or multi-ties or bancassurers. The 12% of non-advisers varied evenly across directors, managers, technical, sales force and compliance departments;
- age distribution was similar to the first survey: 41% were over 50, 48% between 35-50 and 11% under 25;
- 37% of respondents were small firms of 1-2 authorised individuals and nearly 15% were firms with over 50 authorised individuals.

Key Findings

The response to the survey indicated a clear appetite amongst members for increased standards of professionalism in the sector. Over four-fifths (84%) of the respondents support mandatory professional body membership for advisers. Nearly half (45%) said this would increase the sense that financial planning and advice is a profession.

There are mixed views about the RDR's ability to improve public confidence, however members are keen to advance professionalism anyway. Once again, over two-thirds (69%) did not think the RDR would improve the customer's perception of the sector, and four-fifths (80%) disagreed that customers would find the description of the proposed adviser tiers meaningful. Nearly two-thirds (63%) of qualified advisers said they would nevertheless be taking higher level qualifications in order to secure their future role as a financial adviser. Once again, over two-thirds (67%) agreed that better qualified advisers deliver a higher quality advice.

There was overwhelming support that each financial advice tier should have minimum educational qualifications. The vast majority (83%) of respondents felt those at PFP level should be Diploma or above. Members felt there should be an embedding process for this, and 58% felt this should take up to four years, with a further 31% suggesting five years.

Views towards remuneration revealed support towards the Customer Agreed Remuneration (CAR) model. Two-thirds (66%) of members agreed or agreed strongly that CAR better serves the customer, and a roughly similar proportion (63%) believed that a fully disclosed fee (either deducted or added) was an appropriate remuneration model for Professional Financial Planners. The vast majority (93%) believed the term "independent" should mean covering "whole of market".

Once again on RDR knowledge, a very small proportion (16%) said they actually read the discussion paper, whereas many have relied on summaries, press comment and colleague discussion for information.

Survey One: October 2007

Summary

- *A large representative survey of 800 CII/PFS members revealed that the majority of financial advisers want to improve their qualifications in anticipation of the retail distribution review changes (RDR);*
- *More than three-quarters (78%) believe it should be mandatory for advisers to be a member of a professional body;*
- *70% were anticipating improving their qualifications, of which 41% are aiming towards the Chartered title;*
- *Two-thirds (66%) of advisers believe that a better qualified adviser delivers higher quality of service;*
- *However there was a widespread negative response as to whether the remuneration structure offered in the RDR will help consumers. Over four-fifths (82%) of advisers do not believe a consumer is better served by advisers who operate solely on a fee basis.*

Survey Details

Responses were received from over 800 financial advisers (PFS and CII Life and Pensions Faculty members). This is the largest survey yet carried out since the RDR Discussion Paper publication:

- 38% were over 50 years old and 54% between 35 and 50 years old;

- 40% of respondents were small firms of 1-2 authorised individuals and 13% were firms with over 50 authorised individuals;
- all respondents were qualified to at least Certified level: 49% had just the Certificate of Financial Planning or equivalent, 39% either had or were part way to attaining the Diploma or equivalent; and 11% either had or were part way to attaining the Advanced Diploma level.

Key Findings

The response to the survey indicated a clear appetite amongst financial advisers for increased standards of professionalism in the sector. Nearly four-fifths (78%) of the respondents believe it should be mandatory for advisers to be a member of a professional body. More than two thirds (70%) of respondents were anticipating improving their qualifications, of which 41% are aiming towards the Chartered title. Finally two-thirds (66%) believe that a better qualified adviser delivers higher quality of service.

There are mixed views on some of the RDR's recommendations on fee structure. Over four-fifths (82%) of advisers do not believe a consumer is better served by advisers who operate solely on a fee basis (only 15% did believe this would happen); however over half (55%) believe the customer-agreed remuneration model would better serve consumers.

Despite these misgivings, the responses showed that advisers are leaning towards the more professional route that the RDR is proposing. Again, three-quarters of advisers under aged 45 believed they would take higher qualifications to secure their role as financial advisers in this future environment. Although only 42% of advisers think the RDR will lead to a more professional market, 46% of advisers would opt for the professional financial planner title in the post-RDR environment.

Given the potential impact on the RDR on the shape of the financial advice sector for the next decade, the CII is encouraging advisers to engage in the debate from an informed perspective. Only 6% of respondents in the survey said they had actually read the RDR paper, while nearly two-thirds gleaned their knowledge of the discussion paper and its recommendations from second-hand sources, either through press commentary (35%) or in discussion with colleagues (26%).

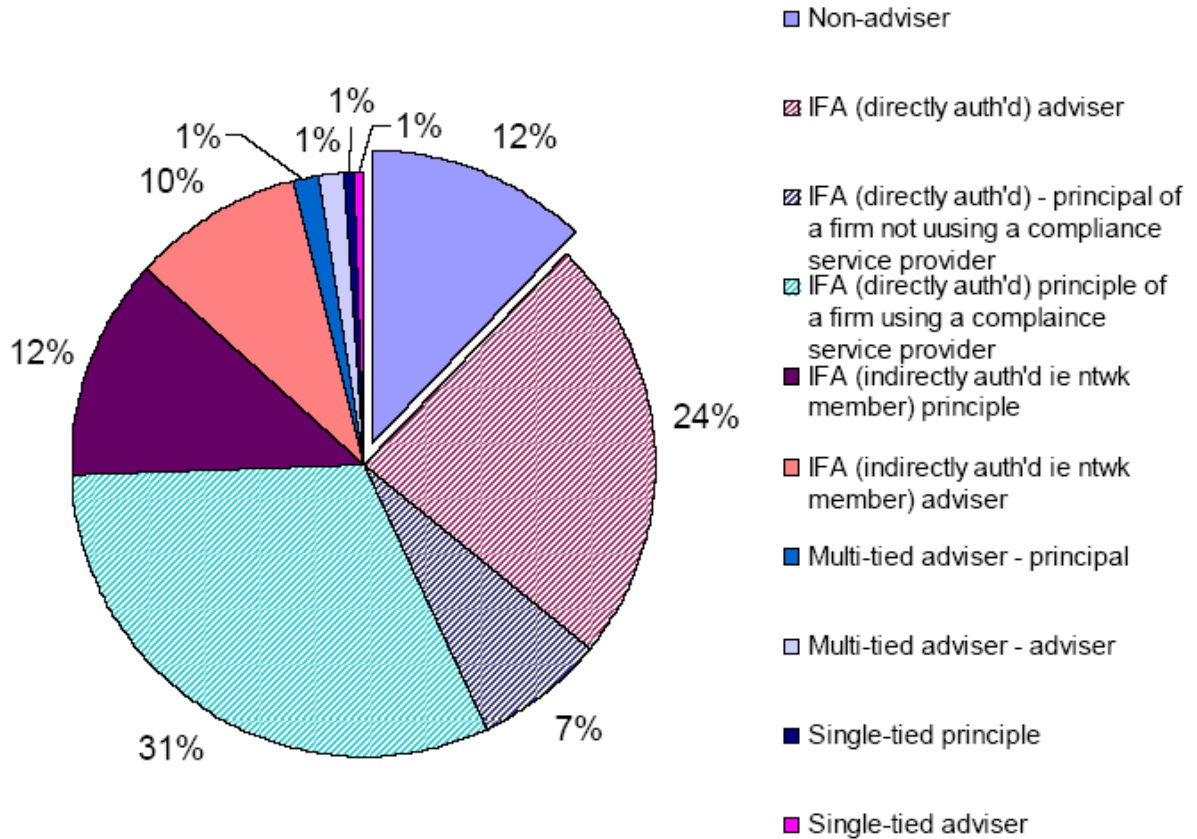
NB Some of the key slides from the November 2007 survey are attached in the following pages. The full survey results can be viewed at:

http://www.thepfs.org/downloads/pdf/PFS-CII_Member_Survey2_oct-nov_2007.pdf

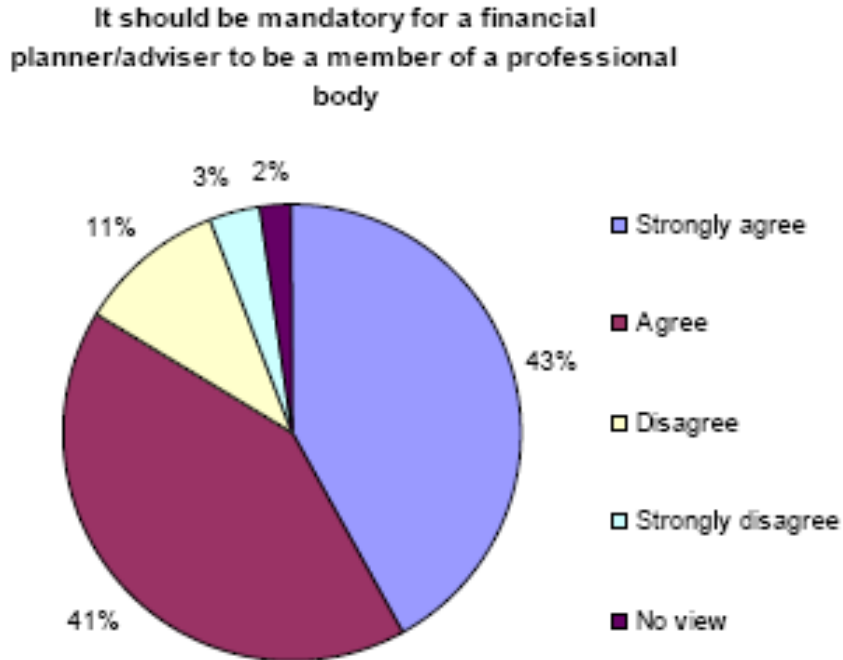
CII/PFS Members' Survey conducted by Ernst and Young (November 2007)

Over 1300 members responded, of which 88% were authorised financial advisers. Of these, 70% were directly authorised IFAs, 26% indirectly authorised and the rest single- and multi-ties and bancassurers

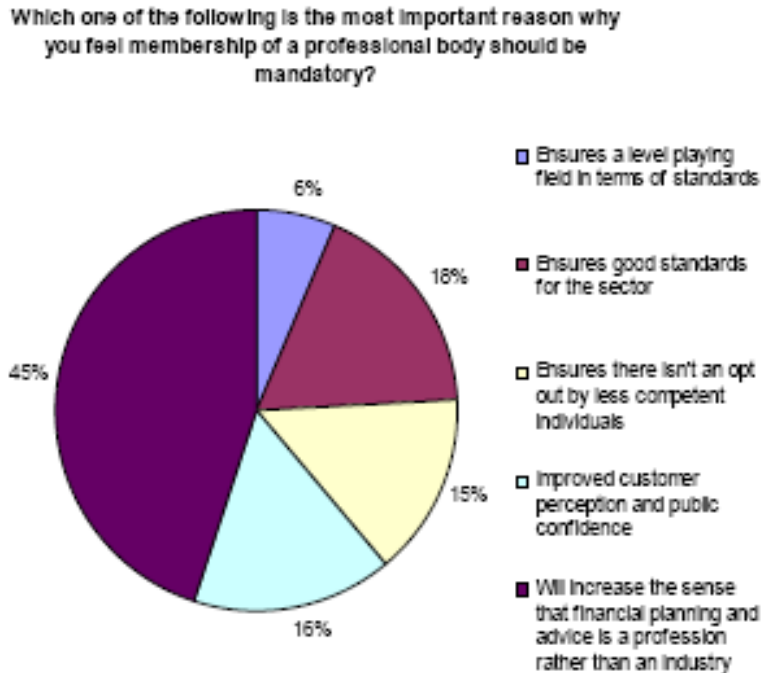
What is your job role?



84% believe that it should be mandatory for an adviser to be a member of a professional body

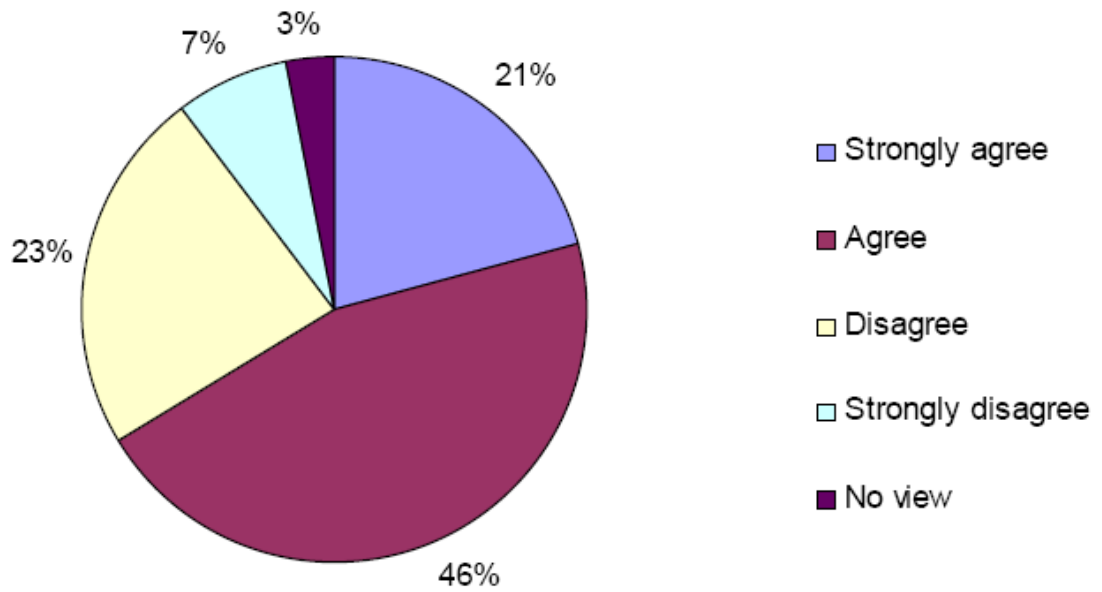


Increasing the sense of professionalism was the reason cited as most important for this with a 45% response



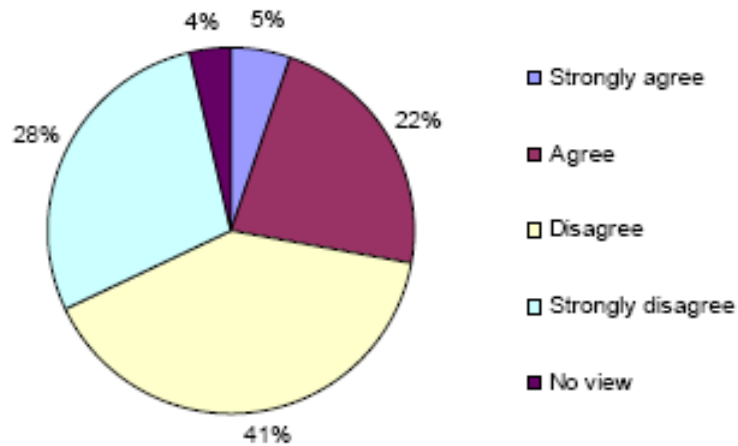
The majority (67%) believe that better qualifications mean higher service to clients

A better qualified adviser delivers a higher quality of advice to clients



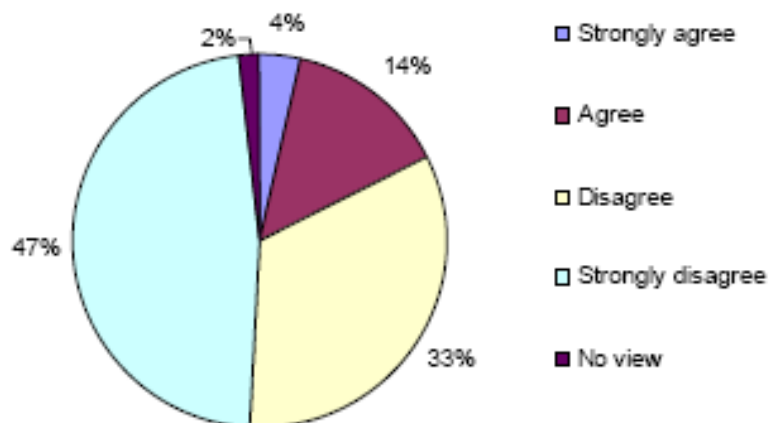
The majority (69%) did not think that the RDR would improve customer perception of the sector.

The RDR will improve the consumer's perception of the retail financial services sector



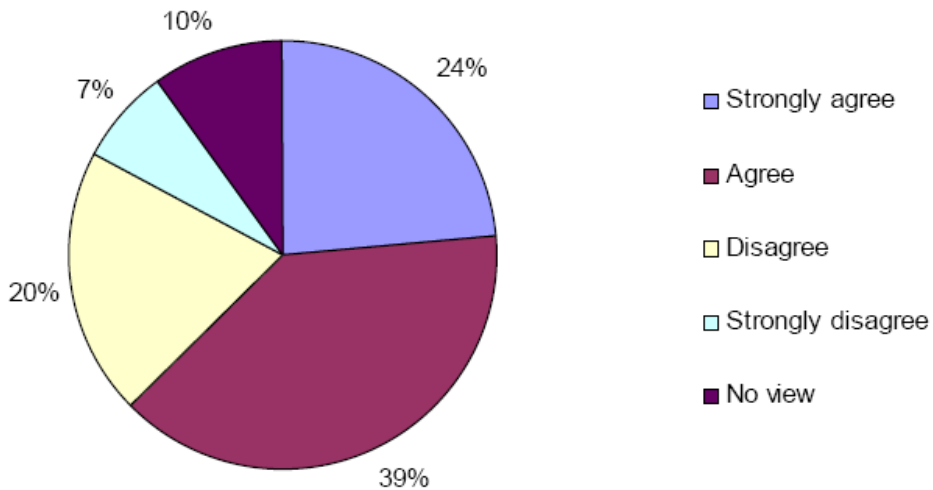
80% felt that the descriptions of the proposed tiers would not be meaningful to customers.

The described proposed tiers - professional financial planner/general financial adviser/primary advice will be meaningful to customers



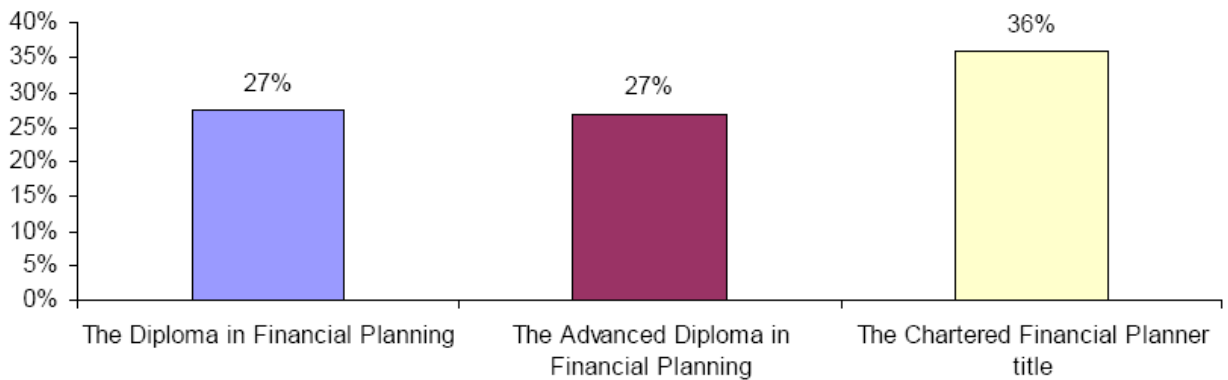
63% of respondents are likely to take higher level qualifications to help secure their future

I will be taking higher level qualifications in order to secure my future role as a financial adviser



69% of respondents anticipate achieving further qualifications

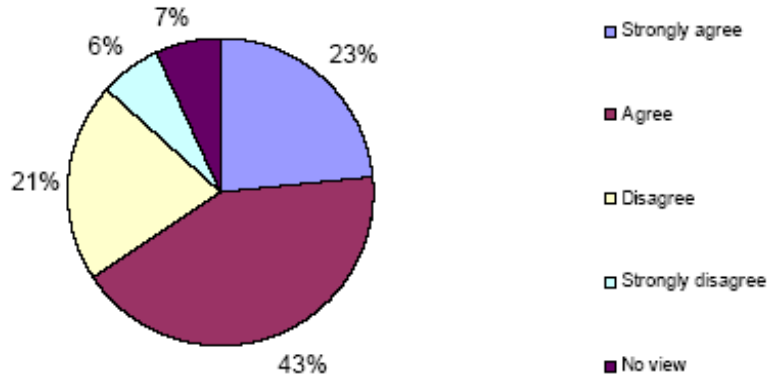
What CII qualifications/awards do you anticipate achieving in the future? (multiple answers allowed)



Of these, the 'Chartered Financial Planner' title was the most anticipated at 36%

CAR was still seen as the payment that best serves the customer with 66% agreeing or strongly agreeing

Customer Agreed Remuneration (CAR), where payment is agreed up front between an adviser and his/her client, better serves the consumer



63% believe the remuneration model should be 'fully disclosed' or added to the factory price

What do you believe the appropriate remuneration model should be for Professional Financial Planners?

