

FSA DP07/1 - Retail Distribution Review

Executive Summary

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

December 2007

SUMMARY

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.

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.**

CII Group

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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.