

# **Retail Distribution Review - Treasury Select Committee Inquiry**

## **Written evidence submitted by the Chartered Insurance Institute**

### **Executive Summary**

1. The CII strongly supports the original objectives which underpin the FSA's Retail Distribution Review (RDR). The proposals and December 2012 deadline will ensure the delivery of an important step-change in the provision of professional financial advice.
2. In order to encourage a savings culture in the UK, consumers need access to financial advice that can be relied upon. However, following years of mis-selling, public trust in and use of professional financial advice is low with the majority of consumers choosing to make financial decisions without consulting an adviser. Achieving parity with more established professions through raising standards should help to reverse this low take up by improving the outcomes and consumer perceptions associated with financial advice.
3. The RDR's framework for professionalism including qualifications, CPD and ethics is designed to deliver on these objectives. Research has found that as advisers become more qualified, consumer outcomes improve, and survey evidence shows that both consumers and MPs support the core elements that make up the RDR's framework for professionalism.
4. Advisers are making substantial progress on meeting the new qualification requirements with **89%** of our adviser members having either attained the new mandatory qualification or progressing towards it. In turn, evidence suggests that the vast majority of those currently working towards the new qualification, and those just about to start, will get there before the 2012 deadline.
5. Grandfathering is not necessary – it would undermine the integrity of the step-change in standards. Given enough effort and commitment now, evidence shows that the industry should be ready by December 2012. Allowing 'experienced' advisers to opt out would needlessly undermine the central premise of the RDR by increasing the likelihood that inappropriate financial advice will continue.
6. Any dilution of the proposals would undermine the core RDR objectives of improving outcomes for consumers and delivering a step-change supported by the majority of the profession and which is in the public interest.

### **Introduction: About the CII**

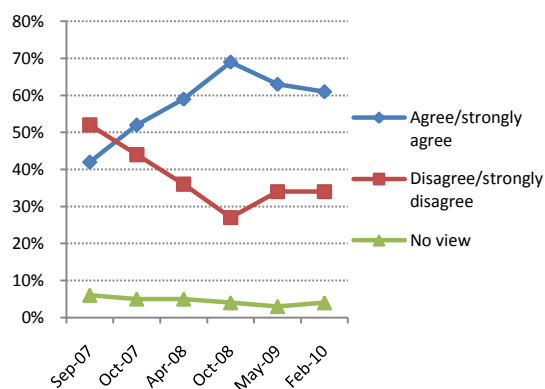
7. The CII is the leading professional body for insurance and financial services with over 95,000 members in over 150 countries. This includes over 28,000 members in the financial advisory sector through membership of the Personal Finance Society (PFS) (which is the UK's largest grouping of financial advisers and those in supporting roles).
8. We are committed to protecting the public interest by maintaining the highest standards of professional and technical competence and ethical conduct. Our Royal Charter remit seeks to secure and justify public confidence in the profession.
9. The CII has supported the concept of raising professional standards as part of the RDR and has supported its members through the whole process. We have conducted six member surveys measuring views and sentiment towards the RDR proposals as they developed.

### **Background**

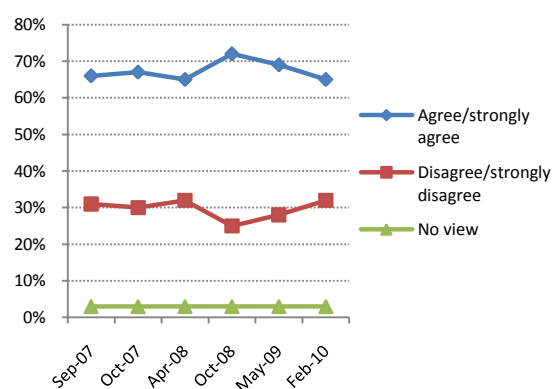
10. Since 2006 the RDR has involved extensive stages of industry consultation and a gradual roll out of policy changes. The early conclusions reached by the FSA still hold today - that commission has helped lead to a loss of trust and confidence in financial advice, and that the quality of advice needs to be substantially raised.

11. These conclusions were strongly supported by many stakeholders both inside and outside the industry who felt that decisive and coordinated action was required to deal with problems in the retail investment market. Since then, our member surveys have continued to show that many across the industry approve of the objectives of the RDR. In our most recent survey (published March 2010) Ernst & Young surveyed PFS members - the vast majority of which were IFAs. 61% thought the RDR would lead to a more professional market and 65% thought that better qualified advisers deliver a higher quality service to clients.<sup>1</sup>

**Figure 1.** Sentiment that the RDR will lead to a more professional market: survey results 2007-2010



**Figure 2.** Sentiment that better qualified advisers deliver higher quality advice: survey results 2007-2010



## Defining professional standards

12. One area of consensus following the FSA's early conclusions was around the need for a step-change in professional standards for financial advice. In order to deliver this and demonstrate professionalism to the consumer, the CII has maintained that businesses and individuals should:
- Undertake enhanced qualifications demonstrating knowledge and understanding at a higher level.
  - Adhere to a robust code of ethics with appropriate disciplinary processes to demonstrate credibility and fairness to the consumer.
  - Undertake rigorous Continuing Professional Development (CPD) to maintain and update knowledge and understanding.
13. To support our members meet these higher standards we provide a range of activities including free regional conferences, specialist podcasts to help with CPD, business transition workshops, gap fill sessions and more.
14. We have argued that through this framework for professionalism, the perception and delivery of financial advice provision can be improved, strengthening public trust. While the journey to develop a professional culture involves advisers undertaking considerable effort, this is justified by the potential outcome. Importantly, each of these 'pillars of professionalism' is embedded within the RDR proposals.

## Why professional standards

### *Redressing the causes and implications of market failure*

15. The distribution of retail investment products has been characterised by a number of market failures including, complex products with opaque charging structures and low levels of competence for practising advisers. In this context, in July 2010 FSA Chairman Lord Turner referred to the £15bn compensation payments made to consumers over the last twenty years

<sup>1</sup> PFS/CII Member Survey: RDR and Professional Views of Financial Advisers and Practitioners (March 2010), Conducted by Ernst & Young: [http://www.cii.co.uk/downloaddata/CII-PFS\\_RDR\\_Survey\\_6\\_12Mar2010.pdf](http://www.cii.co.uk/downloaddata/CII-PFS_RDR_Survey_6_12Mar2010.pdf)

with the vast majority (£11.8 billion) covering pensions mis-selling.<sup>2</sup> In addition, the FSA estimates the average annual detriment to the consumer arising from the sale of unsuitable products to be worth about £0.5bn.<sup>3</sup>

16. Whether real or perceived, continued evidence of consumer detriment inevitably impacts upon levels of public trust and use of professional financial advice. In a recent survey undertaken by YouGov for the CII, 82% of public respondents said that they either did not have very much trust, or had no trust at all, in financial advisers<sup>4</sup>. It should come as no surprise then, that at a time when we are trying to encourage careful and effective saving and investment, only 30% of the population seek professional financial advice<sup>5</sup>. While much has been made in recent months of the development of an 'advice gap' this argument ignores the fact that there is already an enormous 'trust gap' which has prevented greater use of advice. We believe this should be tackled as part of the RDR reforms.
17. Increasing the amount of high quality, financial advice is vital if we are to strengthen consumer confidence in the financial sector and encourage saving for the future. This is relevant for **all** financial advice and not just the advice given by traditional IFAs. Financial advisers from banks, building societies and other businesses make up a large proportion (approximately 46%<sup>6</sup>) of the retail investment market. **Higher professional standards should be applied evenly to all. The public expects and requires a high standard for all advice given.**
18. Raising standards and improving outcomes is achievable, but reforms will only succeed if the measures adopted tackle those persistent market failures that have led to continued consumer detriment and mistrust. Charging structures must therefore be made understandable, transparent, and free from conflicts of interest. In addition, the level of professional standards for advisers must be improved, and adherence to a code of ethics and higher standards of behaviour must be embraced in order to embed best practice. Tough disciplinary processes to deal with those who transgress high standards are also essential.
19. There is evidence to suggest that as the qualification level of advisers increase, so does the likelihood that advice given to clients is appropriate. For example, FSA data from 2010 shows that advice from advisers meeting current qualification standards (certificate) was suitable in just **11%** of cases and that 89% of advice was either unclear or unsuitable. By contrast, the advice from advisers with a similar qualification to the new standard (diploma) was deemed suitable in **43%** of cases, unclear in 32% and unsuitable in 25%. Finally, advice given by Chartered advisers was deemed suitable in **71%** of cases and unclear in 29% of cases.<sup>7</sup>
20. In any case, consumers expect a much higher mandatory qualification level for advisers than is currently the case. In a recent public survey undertaken by Populus, 68% of the 2,050 respondents thought that a full university degree or higher was the minimum level advisers should be required to hold in order to advise on complex savings products such as investments or pensions. The RDR raises the mandatory qualification level from A Level equivalent to first year degree.

---

<sup>2</sup> Speech by Adair Turner at the British Banking Association, 13 July 2010

[http://www.fsa.gov.uk/pages/Library/Communication/Speeches/2010/0713\\_at.shtml](http://www.fsa.gov.uk/pages/Library/Communication/Speeches/2010/0713_at.shtml)

<sup>3</sup> Hector Sants Letter to the TSC p.2, 13 December 2010: [http://www.fsa.gov.uk/pubs/other/andrew\\_tyrie\\_rdr.pdf](http://www.fsa.gov.uk/pubs/other/andrew_tyrie_rdr.pdf)

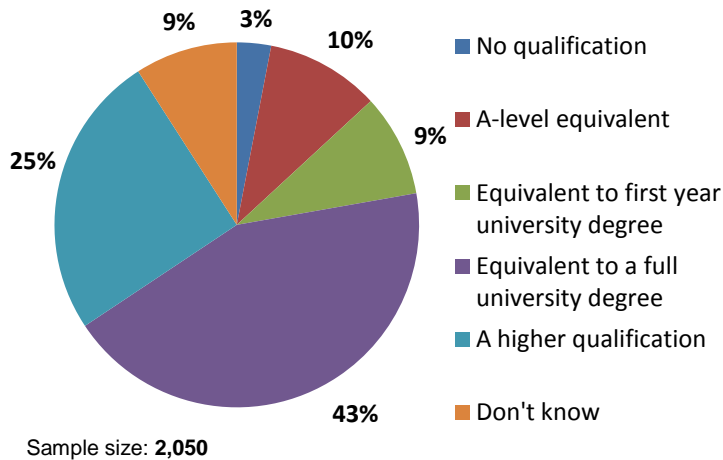
<sup>4</sup> See CII Trust research (2010, p.12) available from: [http://www.cii.co.uk/downloaddata/Trust\\_CII\\_2010.pdf](http://www.cii.co.uk/downloaddata/Trust_CII_2010.pdf)

<sup>5</sup> See FSA Consultation Paper (Dec 2009, p25) "Delivering the RDR": [http://www.fsa.gov.uk/pubs/cp/cp09\\_31.pdf](http://www.fsa.gov.uk/pubs/cp/cp09_31.pdf)

<sup>6</sup> See research undertaken by the FSA/NMG report, June 2010, p.21: [http://www.fsa.gov.uk/pubs/policy/nmg\\_rdr.pdf](http://www.fsa.gov.uk/pubs/policy/nmg_rdr.pdf)

<sup>7</sup> Consultation Paper 10/14: Delivering the RDR [http://www.fsa.gov.uk/pages/Library/Policy/CP/2010/10\\_14.shtml](http://www.fsa.gov.uk/pages/Library/Policy/CP/2010/10_14.shtml)

**Figure 3. Question:** *if you went to obtain professional financial advice about more complex savings such as investments or pensions, what minimum level of qualification do you think the adviser should be required to have?*



21. It is clear, that by improving outcomes for consumers and bringing qualifications closer to a level expected, raising the professional standards of those who give financial advice is in the long-term public interest. The step-change is not just about qualifications however - ethics, continuing professional development and compliance are all important parts of the jigsaw. It is worth noting that each of these elements drew strong support from MPs right across the political spectrum in our 2010 survey of MPs: 75% of respondents were in favour of a code of ethics, 81% were in favour of mandatory professional body membership and 83% supported sanctions for misconduct.<sup>8</sup>

### Evidence of progress

22. The silent majority of advisers are successfully readying themselves for 2013 by getting on with attaining the relevant qualification. The FSA's research conducted by NMG published in June 2010, suggested that 81% of advisers were on track for the end of 2012 in qualification terms, with 52% holding a level 4 qualification and 29% working towards one.<sup>9</sup>

23. CII research found that 85% of its financial adviser members intended to carry on as "independent advisers" post-RDR and that only 10% intended to exit the advice market.<sup>10</sup> This sentiment is reflected by the number of CII members that have achieved, or are making progress towards, the new mandatory qualification level. With two years still to go, 42% of our adviser members hold Diploma or above, 37% have acquired or passed one or more Diploma unit and 10% have made a Diploma related purchase. This leaves **just 11%** who have yet to do anything.

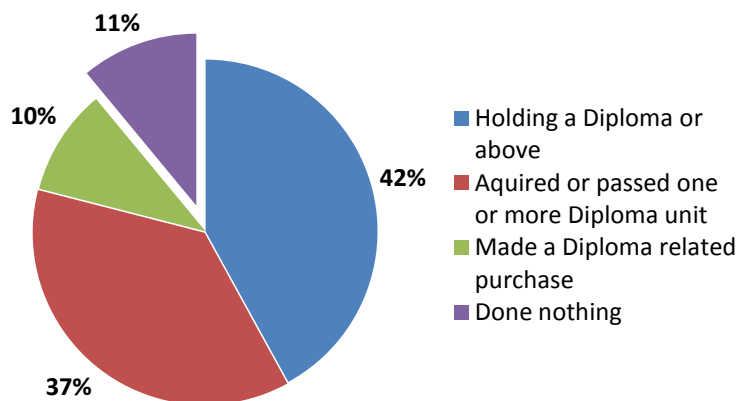
24. There is a danger that the current debate will unintentionally send a signal to the remaining advisers to do nothing in the hope that the RDR qualification proposals will be abandoned or delayed. This is unfair to the vast majority who have made the effort to comply and could jeopardise the chances of completion for those who would otherwise have begun the process of getting qualified.

<sup>8</sup> Results were published in our Consultation Response to the FSA CP 10/14: [http://www.cii.co.uk/downloaddata/CIIResponse\\_FSA\\_CP10-14\\_RDR\\_Profm\\_Sep2010.pdf](http://www.cii.co.uk/downloaddata/CIIResponse_FSA_CP10-14_RDR_Profm_Sep2010.pdf)

<sup>9</sup> See FSA/NMG Report, June 2010, p.26

<sup>10</sup> See CII/PFS membership surveys on RDR <http://www.thepfs.org/pages/memberservices/RDR/professionalism.aspx#Survey>

Figure 4. Progress towards QCF Level 4



25. There is every reason to believe that those who are making progress towards the new qualification level will attain it by 2012. Over 80% of our members completed the old Diploma within two and a half years of first entering and we expect our new Diploma to take substantially less time than the old one. The old Diploma consisted of written exams that were initially offered twice a year and then subsequently three times a year. By contrast, the majority of the exam papers making up the new Diploma are offered online, on demand. No longer restricted to three exam sittings a year, candidates are now able to complete the required number of papers in a shorter time frame.
26. As the 2012 deadline draws closer, we are witnessing a strong increase in demand for exam sittings demonstrating that it is the intention of the vast majority to get qualified by 2012. The CII has managed this increase in demand by growing capacity from 2,500 seats per month in January 2010 to over 5,300 seats per month in December. To ensure that people right across the UK are able to sit exams, we have in place 55 exam centres in 42 locations nationwide as well as mobile exam centres in Birmingham, Coventry, York, Belfast, Bristol and London. We continue to review availability as demand requires.
27. Alongside the CII's support for our members, there has also been a substantial proliferation of corporate activity as firms introduce their own professional development programmes to help their advisers meet the new benchmark. In addition, Aviva and Scottish Widows have set up Academies to help smaller firms by introducing study support measures catering for a range of learning approaches. There are currently 7,000 IFAs utilising the services of the Aviva Financial Adviser Academy.
28. Whilst the progress being made by the majority towards QCF Level 4 is commendable, it is worth noting that there are already over 2,000 Chartered Financial Planners who are professionally qualified to full honours degree level (QCF Level 6). The Chartered title was only introduced in 2006 so the progress made so far reflects the desire and ability of many financial advisers to reach a level equivalent to other established professions. In addition there are also 300 chartered firms demonstrating the highest professional standards through a commitment to the highest standards of knowledge, behaviour and professional development. **All this contributes to the development of a profession over and above the requirements of the RDR.**

#### Grandfathering

29. Regulatory change will be challenging for some of those already in the industry. However, **consumers seeking financial advice will only begin to trust the industry once appropriate professional standards are met.** To dilute the proposals by allowing those with 'experience' to opt out undermines the central premise of the RDR.
30. It is not true that experienced advisers will inevitably find it harder to meet the new requirements. Those advisers who, over a long career, have maintained their knowledge through continuing professional development should be able to call on their years of experience

to help them demonstrate the level of knowledge and understanding necessary to meet the new standards. And, if advisers do not want to sit exams to attain the QCF Level 4 qualification, the CII, like other professional bodies, is developing non-exam based alternative assessment.

31. The CII's alternative assessment route is currently being piloted. It will typically involve a one-to-one personal assessment where the financial adviser will first provide detailed information about their prior learning experience and the knowledge and skills they have already gained, and secondly, undergo an assessment involving a professional discussion based on case studies and scenarios, combined with a technical knowledge interview. All will be with an independent assessor looking for equivalent skill levels to those demonstrated through the normal examination route.

## **Conclusion**

32. Reform of the retail investment sector is in the public interest as it will facilitate an improvement in the quality of advice, and it is in the industry's interest as over time it should reduce compensation payments and strengthen the public's trust in the advice sector. This should ultimately lead to greater take up of professional financial advice.
33. The RDR's framework for professionalism including qualifications, CPD and ethics is designed to deliver on these objectives. Research has found that as advisers become more qualified, consumer outcomes improve, and survey evidence shows that both consumers and MPs support the core elements that make up the RDR's framework for professionalism.
34. Advisers are making substantial progress on meeting the new qualification requirements with **89%** of our adviser members having either attained the level new mandatory qualification or progressing towards it. In turn, evidence suggests that the vast majority of those currently working towards the new qualification, and those just about to start, will get there before the 2012 deadline.
35. Grandfathering is not necessary – it would undermine the integrity of the step-change in standards. Given enough effort and commitment now, evidence shows that the industry should be ready by December 2012. Allowing experienced advisers to opt out would needlessly undermine the central premise of the RDR by increasing the likelihood that the currently unacceptable levels of inappropriate financial advice will continue.
36. Any watering down of the proposed professional standards would undermine the core RDR objectives of improving outcomes for consumers and delivering a step-change supported by the majority of the profession.

**CII**

**January 2011**