

Alphabet Soup: A new recipe?

Guiding the profession with a
common approach to financial
services qualifications

CII Position Paper 2

Retail Distribution Review

Contents

- 2 ▶ Introduction by Dr. Alexander Scott, CEO, Chartered Insurance Institute**
- 3 ▶ 1. Summary**
- 4 ▶ 2. Background: A need for simplified financial adviser qualifications**
- 5 ▶ 3. Proposal: A simplified financial services qualification framework**

The CII is the world's leading professional organisation for insurance and financial services. It maintains the professional, ethical and technical standards of the industry.

The CII works with corporate business to develop organisation wide solutions for ensuring ongoing competitive advantage through technical and professional competence of employees at every level.

Individually, qualified CII members commit to Continuous Professional Development (CPD) through enhancing their knowledge to maintain their professional standing. Its 90,000 members in 150 countries make up the largest professional body in the financial world.

As a society, 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 knowledge, and how

Foreword

Guiding the profession with a common approach to financial services qualifications

Earlier this year the FSA began a review of retail distribution (RDR) with the ultimate aim of securing a fair deal for customers from the financial services industry and for them to have confidence in the advice and products available.

At present public confidence in the industry is low and a contributing factor 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 offered by a number of awarding bodies.

As part of the process of responding to the ideas contained in the FSA's Discussion Paper on RDR, the CII Group has launched a series of position papers which will map out the way ahead on some of the issues at the heart of the debate.

This, the second paper in that series, 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 I know there is strong support for awarding bodies working together constructively to achieve clarity and greater simplicity in the public interest.



Dr Alexander Scott
Chief Executive Officer

1. Summary

- The industry is often accused of providing a bewildering ‘alphabet soup’ of financial services qualifications.
- This makes it difficult for consumers to understand the qualifications of their financial adviser. Employers, particularly small businesses, need similar confidence.
- Consumers and employers need easily recognisable qualifications they can trust. We suggest using the national framework of qualifications as is currently being developed by the Qualifications and Curriculum Authority (QCA) with its National Qualifications and Credit Framework.
- The QCA is the current qualifications regulator set up by the Government.
- Qualifications need to have common recognisable descriptors that would be identifiable and comprehensible to the layperson.
- The FSA’s Retail Distribution Review offers the opportunity to take a fresh look at many of these issues including qualification standards and professionalism.
- The CII has invited other awarding bodies to join it in working together in creating this approach in the form of an industry framework for financial services qualifications.

2. Background: A need for simplified financial adviser qualifications

There is a perception among regulators and commentators that there currently exists an ‘alphabet soup’ of qualifications across the financial services sector. Both consumers and practitioners find it difficult to distinguish between the financial qualifications offered by one awarding body from another. This is especially difficult for consumer-facing roles such as financial advisers, but it also poses problems for other parts of the sector such as small business employers.

Many stakeholders believe that the array of qualifications is itself a barrier to consumer understanding and also industry trust. Indeed, consumers who need to know that their financial advisers are suitably qualified but who don’t have that industry knowledge are the worst hit. The Which? website prefaces its guidance on financial advice:

“unlike accountancy, medicine or law there is no one, high level, easily recognisable qualification consumers can trust when it comes to choosing a financial adviser. There are literally dozens of different financial qualifications, all issued by different bodies and meaning different things.”¹

These concerns were highlighted in the process leading to the FSA’s Retail Distribution Review (RDR) discussion paper.² Its proposed financial advice classes which will require differentiated qualification levels will only work if there were some benchmark or commonality between the various qualifications on offer.

A recent paper by the Association of Independent Financial Advisers highlighted the same issue, that there is a “gap in standards between ‘Certified’ Financial Planner and ‘Chartered’ Financial Planner status” and “there would need to be clarity over the minimum qualifications required for Professional Financial Planner and whether membership of a professional body would be mandatory.”³

A key finding of the CII-commissioned report by Deloitte and Touche was that the lack of a qualification standard for financial advisers contributes to the low reputation perceived by consumers and practitioners alike.⁴ The report recommended that, regardless of independence, breadth of market coverage or remuneration structure, a critical prerequisite for such enhanced professionalism and market confidence is a simplified and universally recognised qualification system for all financial services.

¹ Which? campaigns web page for Financial Advice: http://www.which.co.uk/reports_and_campaigns/money/reports/savings_and_investments/investments/Financial%20advisers/financial_advisers_report_657_93633_5.jsp

² Financial Services Authority, DP-07/1, A Review of Retail Distribution.

³ Association of Independent Financial Advisers, “FSA Discussion Paper DP07/1Retail Distribution Review: Issue Paper 2, Adviser Segmentation,” August 2007, p.2.

⁴ Chartered Insurance Institute, Professionalism and Reputation, a report by Deloitte and Touche LLP, 2007.

3. Proposal: A simplified financial services qualification framework

Further to its commitment to protect the public by guiding the profession, the CII Group has been leading the debate on enhancing the reputation of this sector by improving its professionalism. This issue is key to that debate and the CII has invited the relevant awarding bodies to join them in working together to create a simplified common financial services qualifications framework. Another important partner with a significant role to play is the QCA, the body that oversees all school and further education in this country, ensures that assessment practices are appropriately managed and accountable, recognises qualifications and places them on an appropriate level with respect to others.

The common framework that we are looking to create would aim to:

- create common descriptions for qualifications at the same level that are recognisable and meaningful to the layperson;
- require all qualifications to be subject to the quality control mechanisms of 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.

This paper is not suggesting 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, are standardised across the range of examining bodies that offer them in the UK.

In effect, we are calling for just the sort of “high level, easily recognisable qualification consumers [and employers] can trust”⁵ that is needed.

Such a framework could be developed using the established processes that exist under QCA.

We believe that such a reform would make a valuable contribution to simplification as well as to improving professionalism within the sector. It would make it easier for industry and consumers to understand, and therefore instil greater market confidence and trust.

⁵ Which? campaigns web page for Financial Advice: http://www.which.co.uk/reports_and_campaigns/money/reports/savings_and_investments/investments/Financial%20advisers/financial_advisers_report_657_93633_5.jsp

The Personal Finance Society

Customer Service

42-48 High Road, South Woodford, London, E18 2JP

tel: **+44 (0)20 8530 0852**

fax: **+44 (0)20 8530 3052**

email: **customer.serv@thepfs.org**

website: **www.thepfs.org**

© The Chartered Insurance Institute 2007