

Guiding the profes

The FSA's Retail Distribution Review has thrust the status and capability of insurance brokers to the top of the agenda. **David Thomson** explains the CII perspective

Most of us would agree that the insurance and financial services advice sector should aspire to professional status. But what does being a professional entail? Advisers come in many shapes and sizes and there is huge variety in the work they do. Is it possible to establish a notion of professionalism that is relevant to all?

The Chartered Insurance Institute has been at the forefront in arguing for the need to raise the standard of professionalism across insurance and financial services. The publication by the FSA of the Retail Distribution Review Discussion Paper has professional standards and reputation at the heart of its embryonic proposals. This was thought to be one of the least contentious parts of the proposals – but to what extent is ‘professionalism’ as a concept within financial services/insurance properly understood?

At one extreme it is possible to earn the description “professional” merely by virtue of being paid to do something – like, say, a professional footballer or an actor. At the other end of the scale, there are professional titles which can only be earned via demanding qualifications, continuous professional development and adherence to rigorous codes of conduct. Here we are talking about the established, recognised professions such as accountancy, law and medicine.

At the moment, the financial advice sector

sion on RDR

lies somewhere between these two poles. All financial advisers are required by the FSA to have basic qualifications, but these are below the level deemed sufficient for genuine professional status. Others have high-level qualifications that match those in other disciplines. Yet more are at an intermediate level and are either continuing their journey or have decided not to pursue their studies further.

In insurance advice, there is no FSA minimum qualification. But apart from that crucial difference, the picture is roughly similar.

Qualifications, of course, are only part of the make-up of a true professional. There is a need to belong to a professional body and to subscribe to its code of ethics and conduct.

The CII's independently produced report *'Professionalism and Reputation'* shows that our industry has a long way to go to match progress in standards and institutional infrastructure for a profession. This is why in many eyes the financial services sector remains, for the time being at least, an industry rather than a profession.

But the tone and direction of the Retail Distribution Review suggest that professional standards will increasingly be expected and required of many financial advisers. Certainly, in the era of principles-based regulation, there is a greater need for the kind of self-regulation that is implicit in adherence to professional structures.

So what does the financial advice sector need

to do to bring itself alongside the recognised professions?

The first point to make is that professions such as medicine, law and accountancy have not remained in stasis. They too have faced pressures to reform and improve their performance and to overhaul their attitudes and operations. This should encourage financial advisers for two reasons: it shows that even the most blue-chip of professions are not immune to criticism; and it provides indications of what can be done to improve matters and create a profession that has relevance and impact in contemporary life.

The professions have been through a period of external examination that has led to them improving governance, controls, standards and sanctions. This process has been triggered by changes to what is meant by a profession and professionalism in today's commercial environment and in society at large. Today's economic environment is fast-moving, global, transparent and consumer-centric. Professions can no longer operate under 'gentlemen's agreements' and they must now be seen to be introducing objective and independent means of regulating, monitoring and enforcing behaviour.

The traditional professions have recognised, or have been forced to recognise, that professionalism must be re-examined along with how they should adapt to maintain or recover their professional standing.

In practice this has meant that the traditional professions have made one or »

PROFESSIONAL FIRMS

The CII has introduced corporate Chartered status to boost further the professionalism of the insurance and financial advice sector. To get Chartered status, firms need to meet three principal criteria.

First, a minimum of 50% of executive directors or partners need to be chartered in their own right.

Second, one of the firm's executive directors or partners (who, as an individual, holds the Chartered Insurance Broker title), must take on the role of 'responsible member'. This person will have responsibility for submitting the firm's application for acceptance and annual renewal.

Third, a minimum of 90% of customer-facing staff (defined as anyone having 'customer contact') must be members of the CII.

It is worth reiterating that at least one executive director must be a Chartered Insurance Broker in his or her own right.

These requirements were put in place to help ensure that standards of professionalism were present throughout the entire firm.

Membership of the CII brings with it a requirement to adhere to its Code of Ethics and Conduct. Qualified members of the CII are also obliged to comply with continuing professional development rules, which ensures their knowledge and skill-set remains up to date.

The cost of becoming Chartered depends on the size of the firm. For firms with no more than 10 members of staff, the fee will be £500, rising on a tapered scale to £2,000 for firms with 250 people or more.

As part of the application process, firms must provide audited accounts and a listing of executive directors or partners, with an outline of their principal responsibilities and details of the Chartered qualifications they hold.

Also needed is a list of 'customer-facing-staff' and corresponding CII membership status.

The Chartered title scheme is underpinned by disciplinary procedures to ensure that agreed standards are met.

The CII has the right to withdraw Chartered status from any firm found to be in breach of its regulations.

www.cii.co.uk/cii/membership/designations_titles/chartered_financial_planners.aspx

www.cii.co.uk/app/news/default.aspx?endstem=1&id=811

www.fsa.gov.uk/pages/Library/Communication/PR/2007/055.shtml

www.cii.co.uk/cii/membership/designations_titles/faqs.aspx

www.cii.co.uk/cii/membership/benefits/supporting_pros.aspx

http://www.fsa.gov.uk/pubs/newsletters/gib_newsletter8.pdf

more of the following changes:

- Improved their governance
- Separated lobbying activities from setting examination and behavioural standards
- Adopted independent regulation, oversight or disciplinary boards
- Enhanced their codes of conduct
- Introduced more proactive monitoring
- Encouraged more whistle-blowing
- Standardised best practices at a global level
- Increased transparency (via lay representation within the profession) as well as the application, public nature and range of potential sanctions.

The standing of a profession is determined first and foremost by the behaviour of the sector to which professional standards are applied. In turn, behaviour is influenced by:

- Professional standards laid down by the profession itself and/or legislation and/or regulation
- The way in which the profession is monitored and policed and the way in which sanctions are applied.

All of this impacts upon the reputation of the profession in the eyes of various stakeholders, in particular consumers. It is clear to see that, by any objective measure, the financial advice sector taken as a whole has not taken the steps required to be a profession. This is why the CII is taking the steps required to put it on a par with the General Medical Council, the Law Society or the Institute of Chartered Accountants. And, having addressed the financial advice sector first, in view of the priority of dealing with the RDR, it will be looking to introduce professional standards elsewhere in financial services, in particular in other client-facing activities, such as insurance advice.

CHARTERED BENEFITS

General insurance brokerages which meet the criteria laid down for Chartered status will, once approved, be eligible to use the title 'Chartered Insurance Brokers' in their business dealings.

Firms have been able to apply since 3 May 2007. Those granted approval are authorised to use the term 'Chartered Insurance Brokers' on their business stationery, promotional materials and company signage; describe themselves in these terms in any communications they produce; and display a certificate at each of their branches highlighting their Chartered status.

Chartered firms will also be listed in an online 'Corporate Chartered Title Directory', to be launched later in 2007.

This will list all firms holding the Chartered Insurance Brokers title together with full contact details and a description of the typical classes of business dealt with. It will be available to the public, and will be viewed by individuals and businesses alike, says the CII.

To mark the arrival of Corporate Chartered Insurance Brokers status, the Institute will be undertaking an extensive ongoing communication campaign. It will promote the value of Corporate Chartered status via the national press and other media channels, informing all types of insurance consumer of its introduction and relevance.

The aim is to educate buyers on the standards of practice to which Chartered firms adhere, as a factor to consider when choosing their insurance broker.

But we should be grateful that the other disciplines have trailblazed the path to contemporary professionalism because it gives us a route map to follow. The journey will still be difficult, but at least we know where we need to be, and what we need to do to get there.

As part of this debate the CII is producing a series of policy discussion papers in the coming months, in part as a contribution to the RDR debate but also to engage on the wider debate of professionalism – we look forward to receiving your thoughts on these issues over the next few months. ①

David Thomson is the CII's director of policy and public affairs



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PROFESSIONALISM AND TCF

In May, the FSA noted that it had given brokers till the end of March 2007 to implement its Treating Customers Fairly (TCF) requirements. But only 45% ended up meeting the deadline.

Among the problems was insufficient monitoring of advice being given. Also apparent was a lack of processes to enable each firm to satisfy itself that it is treating customers fairly. By the end of March 2008, all firms are expected to have measures in place to test whether they are treating their customers fairly. By December 2008, all firms must demonstrate they are consistently treating their customers fairly.

Enhanced professionalism as articulated by Chartered status will have a beneficial impact on a firm's ability to meet TCF stipulations.

The FSA says: "In many small firms, management may be customer-facing staff, or at least be closer to the customers. So the shorter lines inherent in small firms should make it easier for good practices to filter down to the point of contact with the customer. TCF needs to be included in all business decisions and be regularly reviewed. TCF is wider than compliance with our rules. Rules cannot cover every situation so it is about firms working within the spirit of the rules and asking whether compliance with specific rules is sufficient to deliver fair treatment of customers."

Firms should be focused on delivering six TCF consumer outcomes:

- Consumers can be confident that they are dealing with firms where the fair treatment of

customers is central to the corporate culture

- Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly
- Consumers are provided with clear information and are kept appropriately informed before, during, and after the point of sale
- Where consumers receive advice, the advice is suitable and takes account of their circumstances
- Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect
- Consumers do not face unreasonable post-sale barriers to change product, switch provider, submit a claim or make a complaint.