Adherence to standards will enable financial advisers to achieve parity with other professions, says **Elliot Lane**

In pursuit of professionalism

The financial advice sector has embarked on a journey – a journey towards recognised professionalism. There is a growing desire amongst advisers to attain professional status both as individuals and collectively (similar to, for example, accountancy or architecture). The journey promises to be a difficult one, but the prize – the respect of consumers, commentators, fellow professionals and the regulator – will make it well worthwhile.

To be a profession, advisers need professional standards that are explicit and which are carefully monitored by an independent and entirely credible professional standards board. These standards must be rigorously enforced, with errant individuals and firms subject to public censure and disciplinary procedures, including the ultimate sanction of being barred from practicing.

This implies that advisers must belong to a professional body that is a recognised part of the regulatory machine. Alternatively, if membership of a professional body is to remain voluntary, then the body must command such respect among consumers and others that those who choose not to belong are generally perceived to have lower standing than its members.

Although these comments apply equally to all advisers, the FSA has signalled clearly the need for financial advisers to tackle these issues as a matter of priority, in view of the greater consumer detriment which can result from low standards in that part of the financial services sector.

The FSA, in its Retail Distribution Review discussion paper, favours financial advisers being members of a professional body. It remains to be seen, however, whether there will ever be a regulatory imperative for them to join. Therefore, while obligatory and making universal membership of a professional body is the ultimate goal, voluntary membership is likely to remain the reality.

This issue of the perceived professionalism of the financial advice sector is crucial. Financial services in general and advisers in particular are held in low esteem by consumers. At the same time, consumers lack confidence and capability when it comes to dealing with financial products and services – which means they are crying out for someone whom they can trust to give them sound guidance.

The FSA highlighted this tension in its 2007 Financial Risk Outlook: "The practitioners' perceived lack of professionalism is creating a real risk that consumers will not engage with the industry during the very time they need to do so."

So how can financial advice repair its image? How can it achieve professional parity with the ›››

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likes of accountants and solicitors?

It is worth stating that other professions are not immune from public criticism – Shakespeare's Henry VI has the line "The first thing we do, let's kill all the lawyers", and it always gets a laugh. But while the public may not like these professions, they respect their professional status and understand that it has to be attained and retained through adherence to a set of standards.

As part of our commitment to the raising of professional standards, the CII has commissioned an independent study of how our profession compares with other professions. The report 'Professionalism and Reputation' shows the long road we still need to travel to achieve parity with other professions despite the pressure they are under to reform further.

To reach the level of other professions requires financial advisers to undertake a gap analysis and then to work out how to match the standards; and professional practices operating elsewhere.

This work can be broken down by addressing the cornerstones of professionalism: ethical behaviour; technical standards and policing. The FSA's retail distribution review discussion paper published in June asks some of these questions.

Ethical Behaviour – although issues exist in other professions these tend not be on the same scale as are apparent within retail financial services. Behavioural issues in other professions have tended to be isolated and related to individuals rather than systemic.

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Technical Standards – qualifications and CPD requirements are generally higher and are more clearly articulated within other professions. Although qualifications can be diverse, there is a general perception of the general standard of qualification required to be a member of a profession (often to degree standard or above).

Policing – although the financial services sector is highly regulated, there is a sense that self-regulation is more rigorous in other professions, with a greater focus on whistle-blowing and oversight that often includes a clear range of sanctions reflecting the seriousness of the problems identified. The existence of strong corporate brands and a strong community of interest in being seen to maintain standards serves other professions more effectively than is the case with financial advice.

Financial advisers share some characteristics of other professions but fall short in other respects. For example, firms are required to be authorised by the FSA and individuals who give advice must be registered as approved persons. But, as we have seen, individuals are not required to be members of a professional body or to hold a practicing certificate as they are in other professions.

The behaviour expected of both firms and individuals is prescribed by the FSA and also by professional and trade bodies. However, the existence of standards has not proved sufficient to ensure that ethical behaviour prevails.

With regard to competence, minimum examination standards are approved by the Financial Services Skills Council (FSSC) and firms are required to ensure that individuals maintain their level of technical knowledge and skills. Individuals wishing to give advice on investment products are required to pass an examination that is equivalent to 'A' level standard. But many suggest the minimum examination standards are inadequate and that a higher minimum level should be set for the provision of advice. Other professions tend to examine practitioners to degree standard.

It is also felt that individuals in the financial advice sector are not subject to clearly defined requirements for continued professional development (CPD) and that standards across the industry vary considerably.

When it comes to sanctions, the FSA can prevent a firm from continuing to conduct regulated activities and it can bar individuals from taking up a position as an approved person or, ultimately, from working in the industry. But the perception remains that the probability of being penalised, particularly for small firms, is small. Certainly, there is nothing to match the emotional impact of a doctor or barrister being "struck off" and so being unable to practice.

Taken together, these factors suggest that, while financial advice cannot be described as unprofessional, it has not yet reached a level that matches the accepted and acknowledged professionalism of other disciplines. But at least it is clear what needs to be done to ensure the sector attains genuine professional status. All that is required is for the financial advice community to commit to making the journey.

The CII is publishing a series of policy discussion papers to debate these issues over the next few months to stimulate the debate – we hope you will join the debate with your views. FS

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