



The Future of Retail Financial Services

Putting the Retail Distribution Review to Work to Deliver
the Enfranchisement of Savings

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Executive Summary

The retail financial services market has not experienced a period of turmoil akin to today's travails since the Great Depression. Consumer confidence in banking institutions has fallen to a low not seen in over 100 years. Few people would have predicted that two British banks would be taken into nationalisation and that leading players would be ushered into merger.

The Retail Distribution Review (RDR) presents an opportunity to act as a force for good in these turbulent times. Given the last decade has seen the "democratisation of credit" as it has been called, the next decade must redress the balance and restore the "enfranchisement of savings".

AIFA calls on the Financial Services Authority (FSA) to learn from the lessons of the past, focus on helping consumers re-engage with savings, and support the development of a distinct advisory profession which will meet the growing demand for independent, client-centred advice.

This paper sets out AIFA's view of how the RDR can be put to work. In simple, achievable terms, we have drawn up this paper based on what consumers have told us they want. The crisis that currently grips the markets shows that there is little point designing a retail financial services industry based on old, failed, principles the time has come for boldness and for the regulator to address the oldest but most pressing of issues: restoring trust and confidence.

AIFA proposes:

- The path is cleared to enable the creation of a recognised, respected advice profession. The hallmark of this profession is its obligation to be the agent of the client, characterised by increasing educational standards, and remunerated on a basis which is fixed between the adviser and the client, without the interference of any other party. This profession alone, given its relationship to the client, should be allowed to be termed as offering "financial advice".
- That a new sales regime is developed which allows for a swift provision of products to those who do not wish to have their personal financial circumstances considered by an adviser. The sales regime would allow an element of persuasion.
- Money Guidance would act as the doorway to the retail financial services market for those unsure of the best route for them. This independent service would signpost alternatives for consumers and guide them.
- A new disclosure regime is introduced which meets the needs of consumers in the 21st century. This would ensure that consumers understood the role of the company they were dealing with. In the most simplistic of terms, consumers need to understand if the firm is their agent – or that of a third party, as this is the key to a relationship based on trust.
- FSA revisits its rules on Conflicts of Interest Management in order to ensure that they are as deep-seated as possible in firms. The industry should turn its back on short term gain and focus on the delivery of long term solutions that meet the long term needs of consumers. Remuneration models must follow the same rule.

Introduction

AIFA believes the RDR is a major opportunity to improve the retail financial services market for the benefit of consumers and those who serve them. We believe that any reform of the retail financial services market needs to be viewed in terms of how well it addresses the over-riding public policy priorities, and needs to represent a step-change improvement in consumer outcomes, not merely changed outcomes.

We are committed to bringing about an improved market, which will recapture consumers' interest in their long term financial well-being and allows them to make rational decisions about how to make provision for themselves. Achieving this critical public policy goal will be a key, tangible and measurable output from the RDR.

To bring this situation about, we believe that our guiding principles must be simplicity, achievability, and improvement.

Simplicity because consumers must be more able to understand the new market and it must be easy for firms to operate within its structures.

Achievability because any changes must be cost-justifiable, deliverable within realistic timescales, and fit for purpose in terms of meeting the needs and expectations of consumers.

Improvement - because the current situation can be improved upon – but the proposals must go further than merely bring about change. Change is an expensive luxury that will not meet the requirements of the consumer nor the industry, especially in these turbulent times.

The purpose of this paper is to provide a cohesive view of a new financial services market based on consumer needs, in a post credit crunch world. New factors are at play and it would be misguided to build tomorrow's market from yesterday's precepts. Some of these factors are obvious as the markets quake around us; others are new but their impact must be considered: financial capability will gradually evolve a more discerning consumer base; Money Guidance will provide a clearer entry-point for those unsure of the financial options. These two factors alone change the market's fundamentals and, given the breadth of the programmes, will have an exciting impact on the market. Statistics show that better informed consumers tend to seek out, probe, and better value financial advice as opposed to other forms of distribution – not to recognise and plan for this eventuality is to miss an essential driving factor.

The age of irresponsibility has ended and consumers will only look to re-engage in retail financial services if we have changed our ways and seek to rebuild their trust. The new age must see the enfranchisement of savings.

Public Policy Agenda

It is AIFA's view that reform of retail financial services will only be effective if there is clarity of public policy outcome. FSA needs to take responsibility for this clarity. It is essential that the public policy drivers are exposed, discussed, and presented as the key issues that need to be addressed.

As we see it the public policy agenda recognises that, as a nation:

- We are under-saved. The savings ratio is at a 47 year low.
- We are under-protected. The Swiss-Re research on protection demonstrates the clear need for greater personal protection take-up.
- We are under-pensioned. The swing from defined benefit to defined contribution schemes, coupled with the State's intention to reverse its role as the major pension provider, to a position secondary to the private sector, have left individuals exposed as Lord Turner's work graphically showed.
- Yet, we are over indebted. The personal debt burden has sped past the £1.4 trillion mark – with a significant concentration in credit cards, unsecured debt and other high interest areas. The credit crunch has seen the 'democratisation of credit' become the 'pit of debt'.

These problems reflect a range of factors:

- There has been a significant reduction in the number of advisers and direct sales forces to raise awareness and encourage take up of both savings and protection products with outlets such as banks diverting resources to credit products which have been more profitable (especially given the lower regulatory standards applied to their sale).
- Further, over the course of the last two decades there has been a decrease in consumer trust in the life and pensions industry, driven by "mis-selling" debacles, and uncertain, and changing, government policy.
- Regulation has increased the cost of manufacturing and delivery of investment products. This, combined with government intervention (such as price caps on stakeholder products), has impacted the market in a way that makes it unprofitable for both providers and distributors to service small savers and investors on a mass scale.
- As a nation we have, over the course of the last decade, moved away from a position of valuing the role of savings and have become over-borrowed. The public developed a "love affair" with easy-access credit which was fuelled by clever marketing, especially for credit cards and personal loans, that captured the public's imagination (and capitalised on a societal shift away from thrift to consumerism).
- The development of a regulatory system which has, through uneven application of its powers, delivered a retail financial services market which enabled far easier access to credit than any form of protection or investment.

The consequences of these trends are now clear to see. The credit crisis will not only see calls for greater regulatory intervention in all markets but a further fall in consumer trust of our industry.

This wider public policy agenda therefore needs to be addressed in terms of helping consumers re-engage with their long term financial well-being and making more, and better, provision for themselves. We need to see the next decade become focused on the 'enfranchisement of savings' and a return to thrift and prudence – but regulation has a role to play in facilitating this journey. We also need to see consumers take on increased responsibility for their own financial future, as this will ultimately help yield the optimum outcomes for them. The RDR has a role to play in articulating and defining these responsibilities, and the proposed Consultation Paper on Consumer Responsibilities from the FSA should help feed into this worthy debate.

We believe there is one key underlying issue that needs to be addressed if the RDR is to be successful in addressing this public policy agenda and reshaping retail financial services for the benefit of consumers – the restoration of trust.

Consumer Trust in Financial Services

AIFA's work on why consumers do not engage fully with Financial Services Institutions (FSIs) has shown that they do not know who to trust. Trust and trustworthiness are crucial to any exchange relationship, and nowhere is this more apparent than in financial services. The long-term nature of many financial products, their complexity, and the importance of financial assets to individual well being, mean that customers perceive high levels of risk when making purchase decisions. They typically lack specialist knowledge and may have difficulty in judging product performance. The costs of making a mistake are considerable.

Faced with such risk and uncertainty, many customers are dependent on FSIs to offer advice and products of an appropriate type and quality - and must trust them to do so. However, there is a growing concern about the extent to which FSIs are trustworthy and the extent to which consumers feel able to trust them.

This concern has been exacerbated by media coverage of the financial services sector, which has tended to highlight poor relationships between customers and FSI's, while also focusing on 'negative' stories such as pensions 'holes', endowment shortfalls, penalty fees for overdrafts, and most recently the mis-selling of Payment Protection Insurance (PPI).

Findings of a new 'Trust Index', developed at The University of Nottingham by the Financial Services Research Forum to monitor levels of consumer trust in the industry, confirms this consumer trend towards cynicism and distrust. The index shows credit card firms and life insurance companies are the least trusted of all financial bodies in the UK. The index also shows that brokers and advisers are the most trusted, followed by building societies, then banks, then investment companies.

While previous surveys of the sector have often been limited to simple yes/no answers, the Trust Index broadens this out by looking at how customers rated FSIs on two levels – low level trust and high level trust. Low-level trust relates to the extent to which an organisation can be relied on to do what it says it will do and higher level trust relates to the extent to which the organisation is concerned about the interests of its customers.

The findings of the Trust Index indicate, for example, that many FSIs get their highest customer ratings in relation to ability and expertise in their field — i.e. in the area of 'low-level' trust. But they find it much harder to present themselves to customers in terms of 'higher level' trust, particularly in relation to shared values. In other words, while many customers might trust their building society to operate effectively in its sector, fewer feel that it has their interests at heart.

This is where IFAs come into the picture as they do have the consumer's best interests at heart.

98% of consumers who already have an IFA state that it is their IFA who they trust most to offer financial advice.

86% of adults surveyed by YouGov in July 2008 on behalf of AIFA rated the services of IFAs fairly good or extremely good.

The research also showed 78% of those questioned trusted IFAs to treat them fairly; this is higher than the levels of trust in Banks, life insurance companies, pension providers and investment companies.

90% of those questioned were also confident that an IFA considers a customer's personal needs above all else.

In our research, the main reason cited by consumers for not engaging with a financial services institution in the previous three years was directly attributed to a lack of trust in the sector (20% said they didn't know who to trust and were confused). We believe that the restoration of trust could see the re-engagement of these consumers in financial services. This figure should be seen as a "tip of the iceberg" given that it omits the benefits of Money Guidance and the Financial Capability work that will be rolled out.

A 20% growth in the financial services market will result in a multi-billion pound net growth for the industry and far higher levels of savings and protection.

The work done by the Resolution Foundation is worth considering in this calculation, as is our own research study: "Financial Advice: Worth the Money?" which clearly demonstrated those who receive financial advice are economically more productive, financially better prepared, and are less of a strain on the welfare state.

A major problem is that consumers are confused as to the role of FSIs as they are unsure of whether they are getting impartial advice or being sold a product.

Research from IFA Promotions reveals 84% of UK adults admit they do not understand the different types of financial "advice" available.

This is why AIFA believes there strongly needs to be a clear separation of advice from sales, to provide clarity so people can rebuild trust with the financial sector, and can therefore re-engage with financial services.

IFA Promotions found 95% of people believe it is important that the adviser can recommend the most suitable products from the whole of the market; and 88% say it is important that an adviser has no commercial ties to product providers.

YouGov consumer research produced similarly high statistics - 75% of those who receive advice from an IFA, expect them to be someone that can select a product from the whole of market to best suit their needs while 73% of those questioned expect IFAs to work for their interest and not for anyone else's.

Further research conducted by YouGov on behalf of AIFA in July 2008 showed 74% of the 2,453 adults questioned agreed or strongly agreed that making consumers aware of whether they were being sold a product or advised to buy one was a good idea, with only 5% disagreeing.

69% of those questioned agreed or strongly agreed that this move would increase the trust they have in FSIs.

When buying financial products, 77% of people thought knowing an FSI was on their side would build trust in FSIs, while 81% thought knowing whether they were being sold a product or advised to buy one, would build trust.

The research also indicated that when considering the most important features of an FSI, consumers believed that dealing with a firm that is on their side, or agent of the client, is the most important consideration (leaving aside price). This therefore makes 'agent of the client' the most important feature when consumers are considering FSIs. We believe this further underlines the importance of the differentiator that advisers work on behalf of and as agents of their clients.

Issues of trust: the law of agency

We believe that the benefits to the consumer in offering absolute clarity of whether a firm is 'agent of the client' or otherwise will go a long way to restoring trust in the sector. Unclear motivations have damaged trust, and the RDR is the opportunity to restore trust through the development of a position that is entirely clear: consumers can choose between those who are the "agents of the client" ("advisers") and those who are the "agent of the firm" (in the sales arena).

We believe that only those firms that are willing to accept the obligations of being the "agent of the client" should be able to call themselves advisers. These firms are clearly on the side of the consumer and will act in the consumer's long term interests. Indeed, legally this may represent an increase in burden and responsibilities for advisers, but this is an addition burden that firms would be willing to accept to facilitate improved consumer clarity.

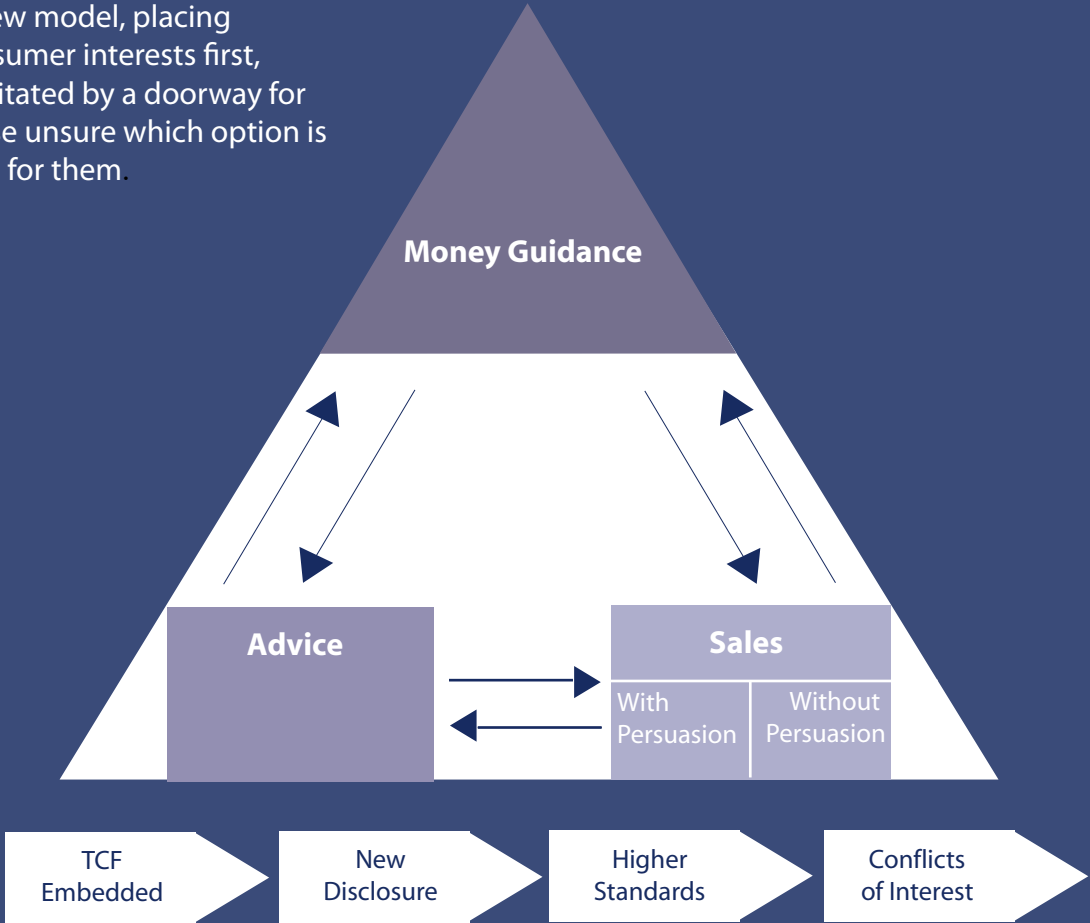
This requirement to act as the agent of the client builds on existing market definitions such as “independent” and “whole of market”, although it more elegantly, and robustly, communicates the key difference between professional advisory firms and those who may act in the interests of others.

A New Model for a New Landscape

Too often in the past those in the retail financial services market have thought about their products first, and consumer last, or put the needs of short term profit ahead of long term consumer needs. The RDR presents an opportunity to shed those discredited models and put the consumer first.

AIFA proposes that a new model is developed by the FSA and delivered by the industry which sets as its starting point the need to re-engage consumers and rebuild their trust. We propose this new model and all-else follows from it:

A new model, placing consumer interests first, facilitated by a doorway for those unsure which option is best for them.



The new model is underpinned by solid foundations of TCF embedded within firms, a disclosure regime that is fit for purpose, a commitment to raise standards by all who work with retail financial services, and strong conflicts of interest management so consumers are protected from short term decision making.

Money Guidance

AIFA believes that Money Guidance, as recommended in the Thoresen review, is a vital component in the success of a new model for the market, and an integral part of the RDR's vision for an improved, more trustworthy retail financial services landscape.

A properly functioning Money Guidance service will be able to clearly sign-post consumers into the "sales" channel for swift product purchase (where they can take significant personal responsibility) or to the IFA community, where they can be sure they will deal with an adviser who is on their side. It must operate independently of any part of the industry that has a vested interest in selling products or it will quickly lose its impartial status and with it the confidence of consumers.

Many consumers will access the market via the door opened by Money Guidance and with the benefit of a further c.5 years' worth of financial education (as delivered through schools, workplace etc. as set out in FSA's financial capability work). We therefore believe it would be a mistake to apply today's criteria to judge tomorrow's process.

We believe cognisance should be taken of the impact of the Money Guidance and Financial Capability, which should deliver greater consumer understanding and clarity around "sign-posting", "guidance", "sales" and "full advice".

The Citizens Advice Bureau (CAB) Moneyplan pilots proved very successful and demonstrated the need for a generic guidance service. It clearly showed that people will use the service if it is made available to them. IFAs were happy to get involved with this scheme as they felt they were giving something back to the community.

The AXA Avenue study also recognises that people will need help with the various decisions they have to make. Without such help, people will not fully engage with their financial affairs nor make effective decisions. The study proved it is those who suffer from poor financial management that most often need access to advice to help in better budgeting. It also clearly demonstrated that those consumers who have had the benefit of IFA advice, prize it greatly. The challenge must be to promote the role and value of independent financial advice to a wider audience.

A key insight from the study was that the biggest difference is made where people receive trusted advice, whereas the provision of information typically has a very limited impact. The study stated that: "The way that people behave in practice needs to be contrasted with what an economically rational person might do. The provision of information might give a person some of the data they need in order to be able to take personal responsibility: it does not however provide them with the means by which they can fulfil that responsibility. We do not think that perfect information is the answer to imperfect human behaviour – we believe that the answer lies in the provision of trusted advice."

Advice and Sales “Working Together”

AIFA proposals are for a market which has the fewest possible divisions, builds on consumer understanding of simple words like “advice” and which throws open the doors to market improvement. This improvement is essential, for, as the Consumer Panel stated in its report:

“The current advice landscape is characterised by confusion and negative emotions. The RDR proposals should reduce distrust and confusion in the advice market and in theory may enhance the propensity of consumers to seek advice.”

Consumers therefore need to be clear as to whether they are receiving “advice” or being “sold” a product. We believe this clarity is fundamental to the success of the RDR. This transparency will also restore consumer’s trust in financial services.

Indeed, our latest research indicates that 74% of consumers believe this proposal is a good idea, with just 5% believing it not to be.

Over two thirds of consumers believe this proposal will increase trust, whilst only 10% disagreed.

It should also be made clear here that we see “advice” and “sales” as two sides of the same coin; that they can and should be supportive and increasingly leverage better consumer outcomes. The RDR has been misinterpreted by many commentators who have suggested we face a polarised market of advice “versus” sales in which consumers would be “locked in” to one or other route. However this notion is far from being consumer focused, and fails to recognise consumer buying behaviours that exists in all other markets, where people vary between seeking advice and opting to make transactions.

Further, we support the notion of a growing financial services market where the sales and advisory arenas work in tandem serving client needs. Indeed, if properly constructed, the two channels will be mutually supportive providing shared skills and generating better outcomes for consumers. The ‘myth of scarcity’ (that all financial services companies are fighting to serve a shallow pool of consumers) is just that; restoration of trust will lead to more consumers engaging with the financial services industry as a whole.

The role of sales

We see “Sales” as having a simple division.

Sales without persuasion - consumers have the choice to buy direct, via a simple self-selection method. They will select from a pre-determined range of products, and take on a higher level of personal responsibility for selecting the correct product. Firms operating in this space should have fully embraced TCF and must have rigorous Conflicts of Interest policies that would rule out offering products that would not meet consumer needs. Further, the products would have to be offered at a reasonable price.

Remuneration disclosure should be common across channels and remuneration structures should be product neutral.

Our research shows that consumers are willing to consider purchasing products with product information only - taking responsibility for the buying decision. Within the backdrop of a transparent market where consumers are clear about their responsibilities, increased trust allows consumers to better engage.

Our research shows that 60% of consumers would be likely to use such a service, with just 22% unlikely to do so

With the benefit of a referral from an independent Money Guidance service, we believe a substantial number of consumers will choose to self-select products from the sales regime.

Sales with persuasion - this option should enable those who currently offer tied or multi-tied “advice” to continue to serve their customers who are not looking for full financial advice. The consumer will be happy to deal with a firm that can offer products from a specified number of providers but that does not select from the whole of the market. The label of this should be distinct from the adviser category as it does not perform the same function (being the agent of the client). These firms should though, be subject to a stricter regulatory regime than that of the Sales Without Persuasion firm, as they engage with consumers on a deeper level. As with the sales without persuasion category, firms would need to evidence that they were treating customers fairly and ensuring they were only offered appropriate or reasonably priced products.

AIFA believe the large majority of savings and investment factfinds relate to the use of ISA allowances. At this level the use of simplified non-advised sales processes of the type described above seems appropriate to the risk involved.

We were encouraged by much of the work that had been done by the BBA and ABI around “assisted purchase” schemes and felt that the “no worse” outcomes and the processes were well conceived and worthy of further development. Such “assisted purchase”, in our view, will self-evidently deliver a service below that of “advice” (and, supported by a new disclosure regime, will ensure consumers cannot mistake it as such).

It may be necessary to consider a request for an Article 4 exemption in order to provide the certainty that the FSA and some parts of industry appears to consider important. There will always be risks in taking steps to a new regime and approach, and if the Markets in Financial Instruments Directive (MiFID) is deemed such a barrier, then it is our contention that it was never intended to be such. Indeed such suitability in MiFID is, in our view, for more complex products than those envisaged under this regime.

Language is, as always, essential in helping consumers understand the role and remit of those in the sales arena. We believe the labels applied are important and must relate to the job of the person and not be camouflaged. We recommend titles such as ‘Salesperson’, ‘Financial Representative’ or ‘Sales Consultant’. We specifically do not feel ‘Sales Adviser’ fits the bill as it confuses the necessary clients we are trying to establish – and 84% of

consumer research agreed that it adds confusion.

The role of advice

Some commentators have suggested that consumers regularly call the type of financial services interaction they have had “advice” even when it fails to meet regulatory definitions, let alone those proposed in the Interim Report. We would challenge that assertion.

We believe that “advice” is used by people in a range of circumstances:

- Consumers recognise that if they visit a professional (accountant, medical professional, solicitor) they are receiving unfettered, personal, advice based on their specific needs.
- It is true that people talk of receiving advice from parents and friends, but again the assumption is that this advice is without interests other than the well-being of the individual.
- They visit high street shops and look for help to make purchases that are out of the ordinary (particularly low frequency, higher cost items such as electronic equipment). Whilst the word “advice” may be attached to the information delivered by shop assistants, few people assume this to be either independent or with the consumer’s best interests at heart. It is delivered by a salesperson with a clear interest in selling a product.
- In financial services, some firms have attempted to “debase the coinage” of “advice” by attempting to borrow the language of the professions without adopting the rigour of professional standards (impartiality and ethical codes).

The RDR presents an opportunity to ensure consumers have a common language established which relates to their normal interpretation of “advice”. It also presents an opportunity for retail financial services to offer consumers a service recognised and respected as professional advice, and raise the standing of not only IFAs but also the industry as a whole. We therefore suggest that the essential characteristics of any firm operating in the advice market must be:

- Agent of the client, independent, and able to offer products and services from across the whole of the market.
- Advisers having attained QCA Level 4 as a minimum (within agreed timescales and with supervision during the extended period).
- Remuneration which is free from provider bias.
- Conflicts of Interest policies that ensure advisers recommend the most suitable product for the client, if any.

We would also refer FSA to AIFA's "Manifesto For Advice" which set out clearly the duties of firms wishing to call themselves advisers, and the foundation set of principles upon which an effective and efficient market for advice can be built. The core principles include:

- 1) Professional financial advice is focused on the client. The guiding light is to do well by the client.
- 2) Advisers have an obligation to deliver the most suitable advice in the interest of their clients.
- 3) Advice firms should be free to operate commercially in whatever way best meets the needs of their business and clients, within the regulatory and legal framework.
- 4) Consumers should be able to obtain fair, expert advice from financial advisers in order to become well-informed about the decisions and actions they need to take to improve their long-term financial situation.
- 5) Providers of financial services and products have an obligation to support the market for fair and high quality financial advice.
- 6) Advisers have the right to expect a consistent cost-justifiable and fair approach to regulation.

The Manifesto gained widespread support from politicians across all major political parties, from consumer groups and from over 80% of IFA firms.

We feel that these proposals for the sales and advice models would deliver a market that consumers can trust – and would meet the requirements set out in the RDR objectives statement.

A 'Holistic' Approach



AIFA believes the approach to the RDR should be a 'holistic' one, with 'Sales and Advice', 'Remuneration' and 'Professionalism' all part of an integrated solution. Only when all three aspects are combined will we see the optimum consumer outcomes being achieved. Below are the inferior outcomes if only two aspects of the proposals are combined:

- Outcome 1 – Without changes to Remuneration, the consumer stigma of commission and perception of bias will still continue to damage the reputation of the industry and decrease consumer trust.
- Outcome 2 – Without changes to Professionalism, consumers will not have confidence and trust in the “alphabet soup” of confusing qualifications. This in turn damages the reputation of the industry. 82% of consumer respondents to AIFA research indicated that adherence to a Code of Conduct was very important or important to them.
- Outcome 3 – Without the separation of Sales and Advice, there will be no clarity for consumers. They will therefore be confused and unsure as to whom they can act in their best interest. As a result they will be less willing to engage with financial services and their long term financial well being.

It is therefore clear that changes to **all 3** aspects are necessary for the RDR to have the best possible impact on the financial services industry. Only 5% of consumers believed this distinction and clarity was a bad idea.

Remuneration

As identified, Remuneration is the second key issue which affects consumer trust in financial services. Commission often carries a stigma and the perception that it creates bias damages the reputation of the advice profession and as a result decreases consumer trust.

This stigma attached to commission tends to be especially perceived by new clients; 21% of clients that have had a relationship with their IFA for 0-3 years prefer commission compared to 36 % of clients that have had a relationship with their IFA for over 15 years.

AIFA therefore support the model of Customer Agreed Remuneration (CAR) as we believe it will erode the perception of some consumers that advice is a free commodity, that commission influences the adviser's recommendation and will help increase transparency. Indeed, to us there are three levels of costs that must be transparent to consumers:

- The cost of initial advice
- The cost of the product / service
- The cost of any ongoing advice

Both advice and sales channels must be required to disclose the charge made for the service (advice or sale) and in the same format to retain a level playing field. It is also crucial that remuneration terminology, especially definitions for 'fee' and 'commission', are clear and easy for consumers to understand. We suggest that terminology should be standardised and a further distinction made between:

- **'Adviser charges'** - The agreed remuneration basis that the advisory profession works on, including the upfront advice fee for analysis and recommendation; and a "recurring fee" for the cost of on-going advice.
- **'Product costs'** - The full cost of the product recommended / sold by the different market participants.

However the terms are defined it must be absolutely clear in disclosure documents that the fee/adviser charge is agreed between the adviser and the client but that commission/sales cost is provider driven.

We believe this system has the hallmark of transparency and fair value as it is determined in conjunction with the client. Also, the client determines whether they wish to receive ongoing advice and has the right to refuse it. Naturally, this comes with the responsibility that an adviser cannot be held responsible for advice that becomes inappropriate over time or with changing client circumstances. Recognition of this fact will help build consumer engagement as those who opt-out of advice will have to take a conscious decision to do so. This position is similar to all other walks of life where consumers have options: for instance, having bought a new car a driver can either have the car regularly serviced (paying for ongoing advice), service the car themselves (deal with their own investments), or, to extend the metaphor, ignore all warning lights and other indications (turning down annual reviews, setting aside red letters etc.) and accept that the car will not perform well.

Professionalism

The final tripartite area of the RDR is Professionalism. This is another feature that would increase consumer trust in FSIs, as consumers would know that advisers are professionally qualified and follow a code of conduct.

53% of respondents to our survey indicated that this was 'very important', a further 29% indicated this was 'important', while only 4% believed it unimportant.

When compared to other statements this was the single most important point with 36% of consumers saying it would most encourage trust.

We firmly believe that to gain consumers' confidence and improve the reputation of financial advisers, robust professional standards must be met. AIFA believes that professional standards embrace three complementary factors: qualifications to evidence technical knowledge; skills that demonstrate the ability to apply knowledge and ethical behaviour.

Qualifications

AIFA support the proposals for Ofqual Level 4 exams, e.g., DipFS / AFPC as the benchmark qualification for financial advisers. Individuals should, in addition to mandatory disclosure of what they do, be permitted to use only one designation that reflects a qualification, e.g. CertFP or Certified Financial Planner. It is very important that consumers are able to learn, understand and therefore trust the designations, so limitations and simplicity are key. The trust aspect again is essential. If consumers can recognise a reduced number of professional qualifications, this will lead to greater trust in the financial system.

The same is true for those in a sales role. As a minimum we believe Ofqual Level 3, e.g. the current CII Cert FP, is the appropriate benchmark for a sales role. We have concerns about "firm specific" qualifications that do little more than recognise an organisation's own training scheme. The cross-industry nature of today's qualifications encourages those who work within firms to consider what other organisations do and how they behave. This provides a "check and balance" in helping ensure ethical behaviour.

For existing advisers, AIFA does not believe that 'grandfathering' is desirable. However, a transition period of 3-5 years should give existing practitioners sufficient time to attain the required standard. There may be a need for an alternative to formal examinations for experienced advisers, which would most likely appeal to those close to retirement.

Professional Body

AIFA believes that the professional bodies (PBs) have a stronger role to play within the market. There must be clarity about the qualifications required to practice (and who sets them), and the role of the PB which acts to promote good practice for its individual members – and takes suitable sanctions against them if they fail to adhere to these.

58% of respondents to the AIFA Survey believe raising professional standards is the responsibility of a PB.

We support the Edinburgh Declaration, as well as agreement on the particular qualifications which advisers need to hold – so ending the “alphabet soup” of confusing and ever-changing designations. There needs to be total clarity of the qualification requirements in order to encourage a market led solution which will allow education providers to enter the market, and as a result for the market to expand.

AIFA does not support mandatory membership of a PB for advisers or sales people as we believe the value of membership would be diminished if it was obligatory. The body would also carry the reputational risk of being judged by the lowest common denominator. We would therefore much prefer membership to be attractive enough to individuals for them to want to join.

Consumer Responsibilities

We consider the wider issue of consumer responsibilities, and the longstop, to be other important factors within the RDR debate. AIFA's consumer research into this area suggests that consumers are more willing to accept responsibility for their decisions if their confidence in firms increases. This plays well to the desire to build trust in the market. AIFA would like to see consumers embrace their responsibilities without in any way minimising the responsibilities that firms, the regulator and other agencies owe to them.

Consumer responsibility is not just about the "entry" level decisions people take (whether to engage or not) but also carries on into their interaction with the financial decisions they have taken. No one would buy a car and not have it regularly serviced, and so it is with financial services products: ongoing engagement will yield better results than neglect.

AIFA's YouGov Survey showed that 65% of consumers believed that it was both the client's and adviser's responsibility to maintain communication between the two parties.

We then asked how long advisers should be responsible for advice after the relationship between the IFA and client has ended; only 21% of people thought that IFAs should be responsible indefinitely, while 31% of people thought that it should be immediately or after one year from the relationship ending.

Consumer Responsibilities and the RDR

General consumer protection laws and the industry regulator offer protection from rogue and fraudulent bodies and consumers' rights are widely championed. With rights, however, come attendant responsibilities and the RDR provides a timely opportunity to define these more clearly in order to help consumers achieve optimum outcomes.

The market can help define consumer responsibilities more clearly by distinguishing between those who are on the side of the consumers: advisers, who are the agent of the client and are deeply committed to building an advice profession in line with other recognised professions; and sales. Without 'clear blue water' between those who are advisers and the rest of the industry, there will continue to be a 'downward drag' where consumers are unsure as to the role of the person and firm, they are dealing with (which will undermine trust).

Whether consumers are seeking financial advice or buying a financial product without advice, the important thing is that they are in no doubt as to whether they are being genuinely advised by someone acting as their agent, or sold to by someone acting as the agent of a firm. Both options are vital to the well-being of UK plc. Consumers deserve, however, to be treated with honesty and transparency and should be in no doubt as to which service is being offered by the various financial services firms and institutions.

One of the concerns of the RDR is to ensure that more consumers have their needs and wants met. However, this is rarely achieved as a one-off as changes of circumstance are a fact of life for most people.

69.1% of IFA clients who meet regularly with their adviser recognise that regular reviews are key to ensuring that such needs and wants remain met.

The introduction of the Money Guidance service will assist some consumers who are currently not engaged with the industry to understand financial issues better so that they can have their wants and needs identified and addressed. This service will be a starting point for consumers who will be set on the pathway towards greater financial understanding and therefore provision.

In our view, if consumers engage more in the processes which affect their financial well being, they will feel more in control and learn and understand the implications of their decisions. The better informed consumers are, the more responsibility they will wish to take.

AIFA acknowledges the wider public policy concern for less dependence on state provision and believes that this will occur when consumer trust in our industry is justified and responsibilities are no longer blurred, misunderstood or denied. We believe that more clearly articulated and defined consumer responsibilities will help UK consumers weather the storms of change and provide a pathway towards a more secure financial future for many.

Long Stop

The ability of firms to attract new sources of capital is hindered by the sector's lack of a long stop. Feedback from members suggests that investors are wary of buying firms with open ended liability. As a result the sources of available capital are restricted – this can inhibit the sector's ability to attract capital from any sources other than those with a vested interest, typically, product providers.

Bringing financial services into line with the Statute of Limitations and introducing a 15-year long-stop would also encourage consumers to take more responsibility for their financial well-being. There is currently no need for consumers to check annual statements or to ensure that they have not been given wrong advice if there is no limit to the time-frame within which they can lodge a complaint. The absence of a long-stop implies that little or no responsibility at all lies with the consumer.

We do not recall any occurrences of products becoming 'toxic' which did not happen within a 15-year period and believe that it is, ultimately, in the interests of consumers to introduce a long-stop. The industry will be more attractive to investors when firms' potential liabilities can be quantified and a thriving, attractive industry is better placed to serve the public. Trust in financial services will be easier for consumers to justify when they see that the industry clearly trusts, and is at ease with, itself. The introduction of a 15 year long-stop is fundamental to bringing financial services into line with other consumer-focussed industries and lifting the clouds of confusion as to where responsibilities lie.

Indeed AIFA research shows consumers are in favour of such a move to. 75% of clients believe that there should be some time limit for IFAs to be legally responsible for advice given, of which 32% believe that the responsibility should end when the relationship between the client and the IFA ends.

Similarly YouGov research shows 73% of consumers believe that there should be a time limit for advisers to be legally responsible for advice, of which 23% believe that the time limit should end when the relationship between the IFA and client ends.

In summary, if consumer trust in financial services increases and consumer knowledge grows, it is likely they will be willing to accept more responsibility for their decisions which can only be a positive move for the industry.

Conclusion

AIFA believes that the RDR presents an opportunity to significantly improve financial outcomes for consumers and address key public policy issues. Some past attempts have not been successful because of pressure not to change from within the industry. However, it is a prize worth striving for - as more consumers will engage with retail financial services, and improve their own long term financial well being as a result. Our own research indicates that a two-thirds reduction in the proportion of people facing finance stress can be achieved through receiving independent financial advice. Now more than ever, with Britain on the verge of a recession, this consumer engagement and financial capability is vitally important.

We consider the RDR is the ideal tool to reach more consumers and to encourage consumer re-engagement with their own financial well being. In some sectors of the industry there is a 'myth of scarcity' (that all firms are competing to gain a greater share of a shallow pool of consumers) but we believe that our focus should be on attracting and re-engaging those who have turned their backs on the sector, and the RDR is the tool to achieve this goal.

AIFA believes that the benefits to the consumer in offering absolute clarity of whether a firm is the 'agent of the client' or otherwise will go a long way to restoring trust in the sector. Unclear motivations have damaged trust, and the RDR is the opportunity to restore trust through the distinction afforded by those working for the client without potential conflict of interest. This will help to restore trust in financial services as a whole.

AIFA strongly supports the proposed market clarity between advice and sales. The key reason why consumers have failed to engage in financial provision for themselves, is a lack of trust in financial services. The root of this lack of trust is concern over the motivation of financial services "representatives". The proposed distinction, which enjoys an elegant simplicity, seeks to address the heart of the problem. It is also important to recognise that advice and sales can work in tandem serving client needs; it is not a case of advice versus sales. They can and should be supportive and increasingly generate better consumer outcomes.

'Remuneration' and 'Professionalism' also both have vital roles to play in increasing this consumer trust, and it is only when all three strands are combined we will see the optimum consumer outcomes being achieved. It is vital the FSA recognise all three strands need to operate together as part of an integrated whole, and having one without the other will alter the entire dynamic of how the RDR operates for the worse.

If the FSA follow this 'holistic' approach and recognise the value each of the three changes will bring in increasing trust in financial services, we estimate the RDR will increase consumer engagement and lead to a larger market. This will ultimately deliver an increased tax-take to the Treasury (through more economically productive and active consumers) and a reduction in welfare state costs (as more consumers will have insurance-based cover to rely upon should the need arise). The societal benefits of consumers coming to terms with the understanding that they are ultimately responsible for their own long term financial well being should also not be under-estimated and will have a positive impact across wider public policy.

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