



The Association of Independent Financial Advisers CP 08/11 With-profits funds – compensation and redress

AIFA is the trade association that represents UK regulated independent financial advisers (IFAs). Membership of AIFA is voluntary and on a corporate basis. AIFA currently represents over 80% of IFA firms in the UK.

IFA firms are the leading distribution channel for retail financial products in the UK. Last year they generated 73% of business by monetary value and are the major sector advising and arranging retail life and investment products in the UK. As such, IFAs represent a dominant force in the maintenance of a competitive and dynamic retail financial services market.

General comments

The Treasury Committee has voiced concern that the inherited estates of proprietary firms' with-profits funds are open to abuse by fund managers. FSA's over-arching requirement that firms treat their customers fairly means that the issue of proprietary firms being able to charge costs incurred as a result of management actions to inherited estates at the expense of with-profits policyholders is a serious and pressing matter. We therefore welcome the opportunity to contribute to this very timely consultation.

Questions

Q1. Do you agree with our proposal to prevent the use of inherited estates to pay compensation and redress?

Yes. In particular because allowing compensation for management failings to be taken from inherited estates rather than shareholder funds exacerbates the problem. We agree that this rule change will incentivise proprietary firms to address failures of systems and controls which is appropriate and fair. Shareholders will, rightly, bear the risk of such failures in future which should result in pressure being brought to bear on firms' senior management to ensure that 'mis-selling' episodes do not occur.

Moreover, policyholders must have confidence that their interests are being protected and in our view, FSA's proposals would be a major step on the pathway towards such confidence. In the current economic climate, consumers would warmly welcome these proposals and not to go ahead with them would risk going against FSA's regulatory objective to protect consumers.

Q2. Do you agree with our detailed proposals?

We have no objection to the rule change taking effect from 1st November 2008. We agree that it is consistent with FSA's approach to other COBS 20 rules that where arrangements to the contrary are governed by existing court-approved schemes, such schemes will take precedence.

We agree that the rule should apply to all types of compensation whatever the cause.

We agree with the proposal to exclude 'guarantee' schemes in the definition of compensation and redress.

AIFA
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