

Retail Distribution Review

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One reading of the FSA's 100 odd page discussion paper on the Retail Distribution Review, quickly brings into sharp focus the central questions which must be answered before any further steps are taken.

Will consumers get a better deal as a result of these proposals? Will the market provide better quality advice for consumers? Will they be able to access that advice more easily and, most importantly, will they be able to recognise who is offering them advice and who is just dressing up information to look like personal, professional and accountable advice?

If the consensus is that the outcome for consumers under these proposals is that things are likely to remain much the same as they are now, or that they are more likely to be exposed to consumer detriment, this paper would have got things wrong.

We were promised a review of retail distribution, but have ended up with yet more meddling with the advisory community. Whilst it may be considered flattering to be the focus of so much attention, is this where the majority of consumer detriment is found? I am pleased to see the FSA is at least using its paper to ask for ideas to improve the non-advised market.

Of considerable concern is the proposal to redefine "independent" solely around the payment options offered to clients. Consumers have been educated to understand that independent means having the ability to draw the best from the whole of the market and allowing the term to be used by firms with contractual ties to providers makes no sense .

The FSA has stated that many people don't access advice because it is not affordable. I simply do not believe this is the case and even if it were, do these proposals make financial advice more affordable – or less? I find it hard to support plans that restrict access to full financial advice by making it so expensive that only the rich can afford it. We are told in this paper that the costs of the proposals will be so much that the number of firms will reduce.

AIFA's views have been clear in this process.

We want to see clearer labeling of what is and what is not, advice – do these proposals help consumers?

We want to see recognition for those professional advisory firms which embrace professionalism. The clear marketing advantage that better firms have needs to be matched by regulatory dividends. We want to see professional standards of advisory firms increase – and for firms who set higher standards to be recognised for this bar-raising behaviour.

We want consumers to be able to choose how they pay for advice – not regulators. Firms who see a commercial advantage will move to the remuneration structure that suits their clients. AIFA has always advocated that there is no “right” way to pay for advice. In the UK we benefit from a mixed economy of payment options: pure fees, fee-offsetting, commission, and factory gate pricing all already exist. The market, through consumer choice, will reward the most consumer-focused model.

I am very pleased that the paper discusses a 15 year long-stop time limit on claims. AIFA has been fighting this battle for what seems like a very long time! We now seem to be getting somewhere. We have consistently argued that the current system creates uncertainty for firms and their PI insurers and we want to see a fairer interpretation of the statute of limitations introduced. This is not to bar consumer complaints, but to encourage consumers to recognise that they have responsibilities as well as rights when making financial choices.

There are proposals to recognise firms who invest more in their people and who wish to be seen as offering the best in financial advice. These will be able to claim the title of Professional Financial Planner. This is a welcome move as there will finally be an opportunity for the best firms in the industry to be recognised as professionals. Those who make the investment in their business could see lower capital requirements than other firms and an easier relationship with the regulator. This is a much more solid platform for the best in the profession to establish the public reputation they deserve.

Second, General Financial Advisers are proposed for those who wish to occupy this space. However, to question whether to limit the lifespan of these firms seems odd to me: how can something be proposed as a good idea but only a good idea for a short time? My call would be to let the market decide – if consumers want financial advice, they will use these firms and if not, they won't. That is all the incentive any business needs.

Third, and most worrying we have proposals to create a Primary Advice service. Simple products, with a slimmed down suitability process, with limited fact finding and less by way of Ombudsman redress – yet with no price cap on the products offered. Surely, AIFA is not the only organisation to see the potential for consumer detriment in these plans?

AC Grayling said: “History repeats itself: it has to because no one listens”. I am disappointed that the RDR working groups didn't spend more time on the history of 1980's distribution and learn from it. The view that “any product provides more benefits than no product” reminds me of what was said during the personal pension boom back then and look at what happened since!

What our industry doesn't need is the “MacDonald-isation” of advice, the MacAdviser. You can choose from a limited menu, the assistant will help up-sell you, if you've not enjoyed or benefited from the experience, you've no one to blame but yourself and, at the end of the day, you know you could have got better elsewhere.

On a more positive note, I am pleased to see AIFA's work on the 'Stakes in the Ground' project recognised as a way of recording good practice and preventing regulatory hindsight. We look forward to working with the FSA and others on rolling out an industry-wide 'Stakes in the Ground' programme.

And we mustn't forget Europe. Will the European Commission's plans for a more integrated financial services market de-rail the proposals in the RDR? We have already seen the Menu and IDD dropped because of the Commission's views on gold-plating. Without joined up thinking, there could well be clashes of objectives ahead.

My final thoughts on all this at this early stage are that the financial services industry still does not have the reputation it should as the second biggest industry in the UK. Looking seriously at these proposals, where will we be in ten years? Will these proposals have materially benefited our consumers or will they have added more confusion? The desire to bring about change should not be put ahead of the need to see improvement – unless we are convinced these proposals benefit consumers, we should look elsewhere.