our view on

The Retail Distribution Review (RDR)

Updated: January 2010

Summary

As a not-for-profit professional body, the CII and the Personal Finance Society are strong proponents of raised professional standards for those who advise on and sell retail investment products. We therefore support the principles behind the FSA's Retail Distribution Review (RDR) to raise standards across retail distribution:

- We believe enhancing professionalism in the way proposed by the RDR (such as raised adviser benchmark qualification and a Code of Ethics) will help improve public trust and confidence, which will in turn lead to a better performing market.
- Our research indicates that consumers see a link between increased professional standards and the quality of service they receive, and have more confidence dealing with better qualified professionals.
- Member surveys also indicate that the vast majority of financial advisers support raised standards of professionalism, despite the difficulties brought about by the recession.
- There has been a major increase in the numbers of advisers who are already on the way to the new benchmark qualification. Many advisers are also going beyond this level and are heading towards chartered status, indicating a sector move to professionalism of its own accord.

Policy Background

The FSA has been undertaking a detailed review of advice and distribution of retail investment products since 2006.[1] This Retail Distribution Review (RDR) entailed a series of policy papers setting out and refining the regulator's views in consultation with the industry. The regulator now intends to implement several measures by 2012 including:

- a ban on financial advisers being remunerated by commission for investment advice;
- clear rules to help consumers distinguish between independent and non-independent advisers;
- new professionalism requirements for those advisers, including raising the benchmark qualification from the current Level 3 (equivalent to A-level) to QCF Level 4 Diploma (equivalent to first-year university degree);[2]
- oversight of professional standards including a "safe harbour" for membership in professional bodies.

CII Group Position

As a not-for profit professional body, the CII believes that enhancing the standards of knowledge and behaviour of those who distribute and advise on retail investments and will help contribute to building public trust and confidence in the market. In time, these measures will contribute to an expanding and well performing market whereby more consumers will have access to quality advice. That is the prize for the RDR.[3]

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[1] For a more detailed background on the RDR, see our document "The FSA's Retail Distribution Review: A Background" (updated January 2010) http://www.thepfs.org/downloaddata/RDR_A_Background.pdf

[2] See the latest FSA RDR consultation: CP09-31 Delivering the RDR: Professionalism, Corporate Pensions; Applicability of RDR proposals to pure protection advice, December 2009. The CII will be submitting a response by the deadline of 16 March 2010.

[3] See our response to the FSA RDR consultation CP09/18 http://www.thepfs.org/downloaddata/CII_Response_FSACP09-18_RDR_SUMMARY.pdf

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Our recent research supports the link between professional standards and raised public trust and confidence:

- 65% of consumers have more confidence in the advice from a Chartered professional than one who is not at this level. Only 5% of consumers would disagree with this statement.[4]
- A large proportion of consumers believe public trust and confidence can be improved through professional standards: 88% believe this could be done through a demonstrated commitment to professional ethics, and 78% believe adviser continuous learning and development can do it.

Professionalism Requirements for Practitioners:

All those practitioners selling financial products to the public should be required to meet certain professionalism requirements:

- **Minimum qualification for advisers:** we support the proposals set out to raise the minimum qualifications benchmark to QCF Level 4 Diploma (ie at least 37 credits or 370 learning hours) for all those giving investment advice, both independent or restricted. We have already set out a suggested blueprint for what the qualification might look like for new advisers from 2010 onwards.[5]
- **Professionalism requirements:** good financial planning does not come solely from passing exams. We support mandatory continuing professional development (CPD) requirements and a Code of Ethics for those who distribute or give advice to consumers on retail investment products.
- **Professional standards governance:** we support the existence of a centrally regulated professional framework to ensure that professional bodies meet robust minimum standards, and anything less would reduce public confidence. We would have preferred an independent professional standards board to act as a guarantor against any arbitrage.[6] We hope the alternative internal model proposed by the regulator in its December 2009 consultation will deliver the same objectives.

Support from PFS and CII Members

Support among financial advisers for raising levels of professionalism remains strong, despite the difficulties brought about by the recession, as indicated in the latest of five surveys of PFS and CII Faculty of Life & Pensions members carried out by Ernst & Young.[7] The main findings include:

- 73% say they anticipate achieving further qualifications,
- 66% agree that the minimum qualification level for advisers should be QCF Level 4 or equivalent
- 83% believe that it should be mandatory for an adviser to be a member of a professional body.
- 89% agree that qualified professionals should have to meet CPD requirements.

We are seeing a major increase in numbers of advisers who are already well under way towards Diploma level:

- Of those currently sitting CII Diploma exams as of January 2010, 78% are completing the qualification within two years, and 91% will complete in two and a half years.
- According to our latest membership survey in September 2009, 66% of Certificate-level advisers say they were en route to the Diploma qualification: 41% of Diploma-qualified respondents were considering or will definitely do the Advanced Diploma; and 46% of Diploma qualified respondents aspire to Chartered status.[8]

The CII Group is the world's leading professional organisation for insurance and financial services, with over 95,000 members in 150 countries. This includes 25,000 members of the Personal Finance Society which is the UK's largest grouping of financial advisers and related roles. We are a not-for-profit body committed to maintaining the highest standards of technical expertise and ethical conduct in the profession through research, education and accreditation. Our Charter remit is *to protect the public by guiding the profession*.

For more information on the CII and its policy and public affairs function, including examples of the range of issues in financial services and insurance that we cover, please see: www.cii.co.uk/policy.

Please do not hesitate to contact: Laurence Baxter, Head of Policy and Research, tel 020 7417 4783; laurence.baxter@cii.co.uk

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[4] Source: YouGov research for the CII, 2360 consumers surveyed 15-19 May 2009.

[5] See our paper *The New Benchmark: A Model Advice Qualification Post-RDR at QCF Level 4*, CII Papers in Professionalism, 28 May 2009 http://www.cii.co.uk/downloaddata/PPLevel4FINAL29May2009.pdf

[6] For more information on the CII's view of such a professional standards board, see *Building Trust Through Independent Standards: Our View on an Independent Professional Standards Board*, CII Paper in Professionalism 6, 7 Dec 2009, http://www.cii.co.uk/downloaddata/PP6_IPSB_7Dec2009.pdf

[7] The survey conducted in May 2009 involved over 700 PFS and CII Faculty of Life & Pensions members. To see full survey report, as well as reports from the four previous RDR surveys, see: http://www.thepfs.org/pages/memberservices/RDR/professionalism.aspx#Survey

[8] PFS membership survey, conducted in September 2009, total 7287 respondents. Note: number of respondents to Cert-level advisers question: 467; number of respondents to Diploma-qualified question: 336.