

# Building trust through independent standards:

## Our view on an Independent Professional Standards Board

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professionalism**first.** 

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## The Chartered Insurance Institute

As the leading professional body for the insurance and financial services sector with over 93,000 members in more than 150 countries, the CII Group is committed to protecting the public interest by guiding practitioners in the sector towards higher technical and ethical standards. We do this by offering them a broad portfolio of services and support to achieve this, including membership, qualifications, continuing professional development, thought-leadership and the maintenance of a benchmark Code of Ethics.

[www.cii.co.uk](http://www.cii.co.uk)



## Personal Finance Society

The Personal Finance Society (PFS) is part of the CII Group and is the leading professional body for financial advisers and those in related roles. With nearly 25,000 members, it promotes the highest standards of professionalism in the financial services profession, and sets the standards for technical knowledge, customer service and ethical practice across the entire financial advice community.

To achieve its aims, the Society provides its members with access to technical qualifications, learning materials, support services and practical benefits. PFS is uniquely placed, as a campaigning organisation, to support consumer demands for reliable, professional advice.

[www.thepfs.org](http://www.thepfs.org)

## Foreword

*As the leading professional body for those working in the insurance and financial services sector, the CII believes the industry can and is converging on the need for enhanced professionalism. We believe that an Independent Professional Standards Board (IPSB) to oversee professionals operating in the retail investment market can play a major part in that process.*

Our approach to the Retail Distribution Review (RDR) has been to help build an industry-wide consensus around ideas that will increase professionalism and build a more confident, trusted industry. Ultimately, our goal is to ensure there is an expanding market and increasing numbers of consumers with access to high-quality advice. That is the prize for the RDR.

The RDR process inevitably implies considerable upheaval, which will be distracting and unsettling to some of our members and to the market. Few like change. However, if the RDR is to achieve its objective of building trust and confidence in the sector and thereby expanding the market, then this is a necessary journey. We are committed to playing our part in developing solutions and helping to guide our members through the process of change.

This paper explores the idea of an Independent Professional Standards Board (IPSB) as a contribution to the FSA's specific consultation on this concept. We believe that whatever is decided in 2010 as a result of this consultation, the proposal itself needs to be demystified and a proper debate undertaken involving the regulator, all industry stakeholders, professional bodies and consumer groups.

**The RDR originated to improve the consumer experience. Yet, this important stakeholder has been largely missing from the current debate which has primarily been confined to the industry groups and the regulator. An open forum for discussion over the role and purpose of a Standards Board should change this, bringing the central focus back to the key stakeholders: consumers and the public interest.**

Ultimately, if the RDR is to succeed in its objective of restoring the trust and confidence of the public, an Independent Professional Standards Board can and must play a major role in achieving this.

We look forward to the next stage of the process, following the FSA's consultation paper. Work to develop our proposals for professionalism and a reformed professional body model to support this will continue, as will our efforts to develop practical measures that help our members and firms manage the transition to the new post-RDR era of greater professionalism. Many are already embarking on this journey and we will support them on their way.

**Dr Alexander Scott**  
**Chief Executive**  
**The Chartered Insurance Institute**

**7 December 2009**



# Executive Summary

This paper sets out the CII's conception of an Independent Professional Standards Board (IPSB). It reviews the proposal as it stands now, takes a critical look at some of the myths that have developed about it, sets out what a possible model IPSB might look like in the future, and explains the substantial benefits such an IPSB could offer.

## Our view

As the leading professional body for those working in the insurance and financial services sector, the CII believes the industry can and is converging on the need for enhanced professionalism. An IPSB to oversee professionals operating in the retail investment market can play a major part in that process.

Public trust and confidence in the sector is low, and was being eroding long before the recent banking crisis. Mis-selling scandals and bad press have left consumers with a negative impression of the market, including financial advice. This must change.

Improved professional conduct of advisers can help bring this about. As part of an effort to improve retail investment advice, the FSA's Retail Distribution Review (RDR) is now exploring a series of proposals aiming to raise these standards including creating an IPSB to oversee the process.

## Support for raised standards

There is strong support for the idea of an IPSB as part of a 'package of professionalism' across stakeholder groups: 74% of consumers believe such a board would increase their confidence in the sector; 86% of MPs believe this; and 75% of advisers believe an IPSB should be set up.

## Our model IPSB

An IPSB should have several critical characteristics in order for it to act as a guarantor of public confidence and trust. It should do exactly what it says on the tin:

- Independent – it should be independent of existing regulation, and independently led.
- Standards – it should follow a single structure of professional standards.
- Board – it should have majority lay representation, and remain focused on oversight.

With these elements in place, an IPSB can play a key role in supporting improved public confidence in financial advice.

## Dispelling myths

Understandably, a number of concerns about the concept of an IPSB have been raised since it first arose. However, we believe that many of these concerns are unfounded.

- Duplication of existing regulation: an IPSB would have a clearly defined statutory role, and sit above (not replace) professional bodies.
- Excessive cost: costs should be proportionate to task. The Professional Oversight Body of the Financial Reporting Council which carries out a similar function, has an annual budget of £1.5m.
- Resource intensive: the IPSB would require a small scrutiny body and secretariat to set overarching standards, leaving the bulk of monitoring to individual professional bodies.

## Benefits

The debate about an IPSB should not lose sight of the substantial benefits it has to offer to consumers and professionals in the sector. We see the most important benefits to be:

- Consumer clarity and increased savings: embedding robust standards should over time leave consumers with a clear view on what good behaviour looks like and what will happen should this fall short. Increased public trust should support greater numbers of consumers feeling confident enough to enter the market and use advice, hopefully increasing long-term savings.
- Recognition of professional skills: an ethos of integrity and pride should be encouraged to replace the culture of meeting minimum compliance standards.
- Job satisfaction and professional esteem: as the industry commands greater trust and respect, job satisfaction will increase and practitioners will feel on a par with other professionals.

## Time to grasp the nettle

It won't be easy, but improved standards across the board, assured by an IPSB, means a brighter future for the profession.

# 1. Trust, the RDR and the birth of the IPSB

- Trust and confidence in the retail investment market
- Developments in the RDR
- The birth of an Independent Professional Standards Board

The concept of an Independent Professional Standards Board grew out of the FSA's fundamental review of retail investment advice and distribution begun in 2006, the Retail Distribution Review (RDR). The RDR, in turn, was the result of the growing concern that the retail distribution market did not appear to serve the interests of intermediaries, providers or indeed the public at large.

The early debate about a possible Independent Professional Standards Board has been a slightly confused one. The debate first began to take shape after the concept was included in the FSA's Final Feedback Statement in 2008.<sup>1</sup> Understandably, many reacted with both caution and anxiety over the perceived duplication of regulation, not to mention the possible additional cost of such a body. Many expressed doubts about why another body was needed in this space when a plurality of professional bodies are working in this space already.

This paper gives an overview of the concept of an IPSB as it stands now, and sets out what a possible model IPSB might look like in the future. The purpose of the paper is to encourage a considered debate about what its role might be once the immediate issues about RDR transition are addressed and the post-2012 map begins to evolve.

## Trust and confidence in the retail investment market

Public distrust and lack of confidence has been a longstanding problem for financial services. In the eyes of consumers, the sector compares poorly to other professions. For example recent research conducted by YouGov for the CII found that trust in financial advice (40%) trailed that of doctors (89%), teachers (77%), and lawyers (51%). When asked specifically about how the financial services industry might build back trust after the banking scandals, only 5% replied that they already trust the financial services industry.<sup>2</sup> Clearly, the sector has a lot of work to do in this area.

Yet, there is no more important subject for the public to understand and, when appropriate, access the right guidance, than the complex sea of financial services. Financial services is a classic case where the asymmetry of information and knowledge requires planning and advice. The average customer needs some sort of route map, and excellent advice should be highly prized. But in too many cases suspicion or distrust prevents consumers from accessing the guidance they need.

Professionalism can help provide that essential consumer pathway into financial services. As Professor John Kay asserted in an article on the FT on the perceived failure of professional standards in banking, change is needed:

*"It is true that professional reputations are not what they once were, that self-regulation of standards of competence has often been inadequate, that professions' ethical standards have declined generally. But it is also striking that such decline is most noticeable in the areas of law and accountancy closest to financial services...."*<sup>3</sup>

Professor Kay goes on to say:

*"...even amid the excesses of "eat what you kill", professional restraints limit what lawyers and accountants feel able to do. You can still expect a lawyer or accountant to have some concern for your interests. You can have no such confidence when you buy financial services.... unless the financial services industry faces up to the issues raised, it will face an even harder task in rebuilding the trust and confidence of the public."*<sup>4</sup>

Financial advice can and should play an important role in an individual's life. A financial adviser should be able to command the same respect and trust as other professions. The advice they provide is important, long term, and has major implications for consumers' financial well-being. By the same token, poor advice can have disastrous consequences for people's lives if things go wrong. It is important for the economic well-being of society, as well as for individuals, that consumers have confidence in the financial services industry. A general withdrawal and failure to invest and plan for the future will have serious social consequences.

<sup>1</sup> FSA Feedback Statement FS-08/6 *Retail Distribution Review: Including Feedback on DP07/1 and the Interim Report*, November 2009

<sup>2</sup> YouGov research for the Chartered Insurance Institute, sample size 2064 adults, carried out on 29 May to 1 June 2009. All figures are weighted and representative of all UK adults.

<sup>3</sup> "Introduce Professional Standards for Bankers," by John Kay, *Financial Times* 18 February 2009 <http://www.johnkay.com/finance/595>

<sup>4</sup> Ibid.

## Developments in the RDR

The FSA's concerns about the retail investment market were summarised succinctly by its then chairman Sir Callum McCarthy in his speech at the annual Gleneagles conference in September 2006 where he questioned whether this market was 'broken'.<sup>5</sup> McCarthy identified that:

1. The quality of financial advice and professional standards needs to increase significantly.
2. The fundamental problem in the provider-distributor relationship is influencing the how the distributor is serving the consumer. At issue here are both remuneration bias and the meaning of the concept of "independence" and "advice".
3. There must be an economical way to deliver simple advice on simple products to more consumers.
4. Change needs to come from both the industry as well as the regulator.

Over the two years that followed that speech, the FSA have published a discussion paper, two feedback statements and a consultation aimed at addressing these problems in the way retail investment products are sold. The review has focused on three broad areas:

- Market segmentation: the retail investment distribution market should be segmented and labelled, including the meaning of the term "independent" and how this could be used.
- Remuneration: those distributing products should be paid in a manner that does not influence the products they sell.
- Professionalism and reputation: those selling and advising on retail investment products should possess higher standards of knowledge and behaviour.

On 25 July 2009, the FSA published its *Consultation Paper CP09/18*.<sup>6</sup> This set out the regulator's proposals for improving the UK retail investment market, including guidelines for how and from whom investment products are sold, how the distribution is paid for, and, importantly, professional standards.

This consultation proposed the following:

- to expand the scope of investment products included within the RDR;
- improving the clarity with which firms describe their services to consumers;
- addressing adviser remuneration distortions by banning product providers from offering amounts of commission, and requiring firms giving investment advice to set their own charges, in agreement with their clients; and
- increasing the professional standards of advisers including raising the benchmark qualification for advisers to QCF Level 4, and a proposal to create an independent professional standards board.

## The birth of an Independent Professional Standards Board

The idea for an IPSB was originally developed in a paper prepared for the CII by Deloitte & Touche in July 2007. The report, *Professionalism & Reputation*, identified a standards board as a possible remedy similar to developments in other professions.<sup>7</sup> The main financial services professional bodies all agreed on the concept as part of a 'package of professionalism' in the landmark Edinburgh Declaration, a joint statement of principles published in Spring 2008 (see Appendix).

The concept was further developed as a recommendation of the FSA's professionalism working group in autumn 2008 chaired by Michael Foot. The proposal was then adopted in the FSA's Final RDR Statement in November 2008 and, more recently in the FSA's Consultation Paper on RDR (July 2009). The objective, as described by the FSA's Dan Waters, is to: "drive higher standards for advisers, whether providing independent or non-independent advice. We believe that this Board should have similar powers to standards boards in other professions".<sup>8</sup>

<sup>5</sup> *Is the present business model bust?* speech by Sir Callum McCarthy, Savings & Pensions Industry Summit, Gleneagles, 16 Sep 2006 [http://www.fsa.gov.uk/pages/Library/Communication/Speeches/2006/0916\\_cm.shtml](http://www.fsa.gov.uk/pages/Library/Communication/Speeches/2006/0916_cm.shtml)

<sup>6</sup> FSA Consultation Paper CP09/18 *Delivering the Retail Distribution Review*, July 2009 [http://www.fsa.gov.uk/pubs/cp/cp09\\_18.pdf](http://www.fsa.gov.uk/pubs/cp/cp09_18.pdf)

<sup>7</sup> *Professionalism & Reputation: Report by the Chartered Insurance Institute*, Deloitte & Touche, July 2007 [http://www.cii.co.uk/documents/rdr\\_cii\\_prof\\_rep\\_report.pdf](http://www.cii.co.uk/documents/rdr_cii_prof_rep_report.pdf)

<sup>8</sup> "The Retail Distribution Review: Practical Challenges for the Investment Industry," speech by Dan Waters, FSA to the ABI Conference *Retail Distribution Review: Building a Sustainable Future*, 16 Jan 2009 [http://www.fsa.gov.uk/pages/Library/Communication/Speeches/2009/0116\\_dw.shtml](http://www.fsa.gov.uk/pages/Library/Communication/Speeches/2009/0116_dw.shtml)

## 2. Support for raised standards

- Public
- Parliamentarians
- Practitioners

Already the concept of an IPSB has garnered impressive levels of support from stakeholders across the Industry and beyond, including, most importantly, the general public.

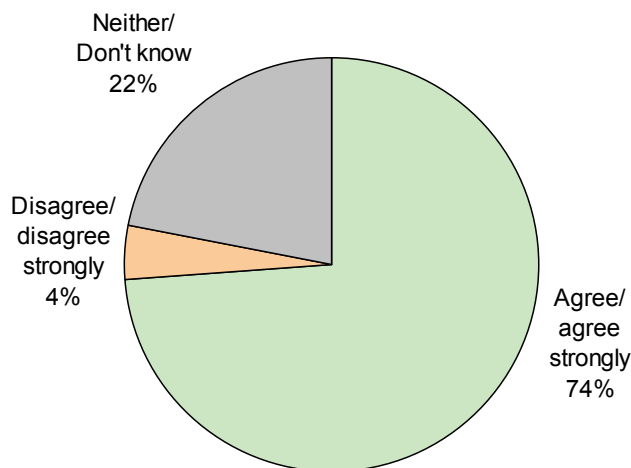
### Strong public support

Research conducted by the CII demonstrates that the concept of the Standards Board is welcomed by the public. Three out of four consumers surveyed support the concept of oversight by a professional standards board (see Figure A).<sup>9</sup>

**Figure A: Public support for an IPSB**

*As a result of the banking scandals, the FS industry as a whole is currently held in low public esteem. Building this trust will take time. Which of the following measures could professionals in the FS sector take to help win back your trust?*

The financial advice sector should submit to greater regulation by an independent professional standards board.



Source: YouGov/Chartered Insurance Institute, May 2009

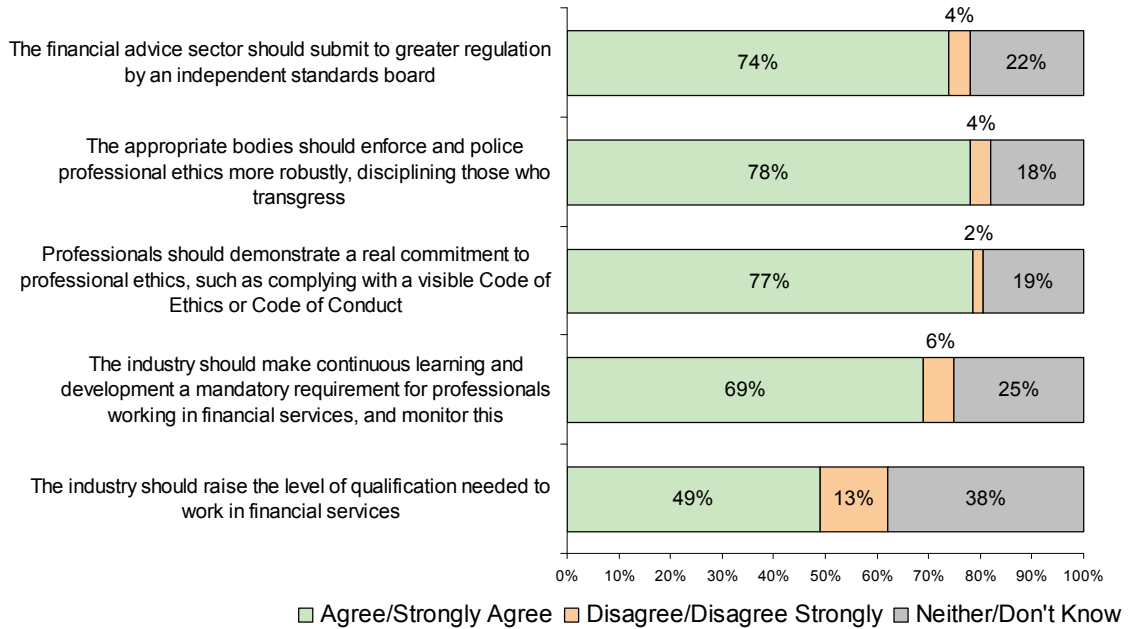
Evidence from the same survey suggests that consumers see the IPSB as part of a 'package of professionalism', including mandatory continuing professional development (CPD) and commitment to a visible Code of Ethics (see Figure B).<sup>10</sup> Collectively, these measures are all considered to be important in building public trust and confidence in the sector.

<sup>9</sup> YouGov research for the Chartered Insurance Institute, sample size 2064 adults, carried out on 29 May to 1 June 2009. All figures are weighted and representative of all UK adults.

<sup>10</sup> *Ibid.*

**Figure B: Public support for an IPSB as part of a 'package of professionalism'**

**As a result of the banking scandals, the FS industry as a whole is currently held in low public esteem. Building this trust will take time. Which of the following measures could professionals in the FS sector take to help win back your trust?**



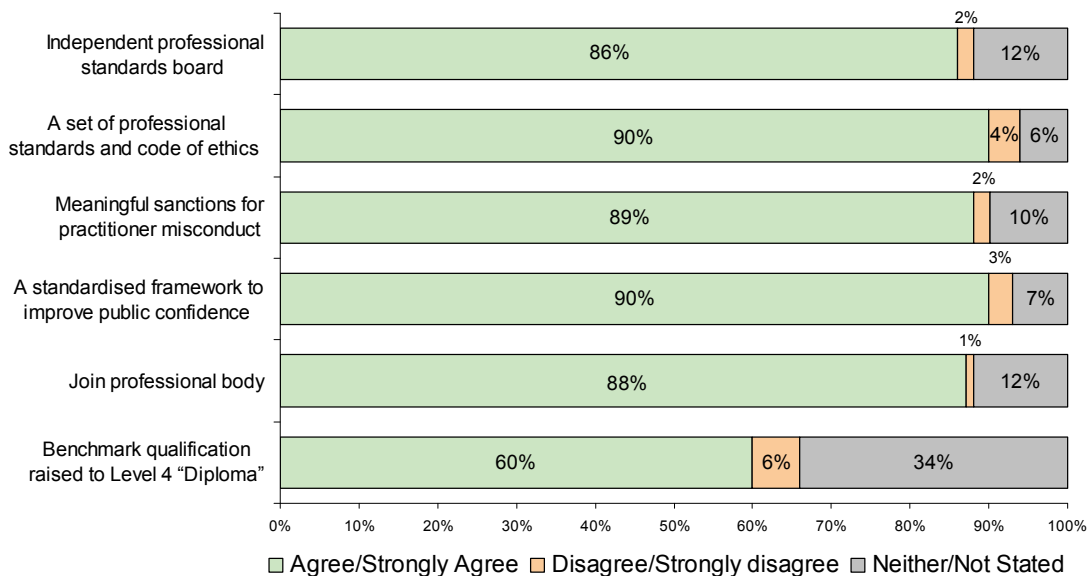
Source: YouGov research for the CII, May 2009

### Support from parliamentarians

Similar support was shown by a parliamentary survey conducted in summer 2009 with 86% of MPs surveyed favouring the concept of an independent standards board as well as strong support for a 'package of professionalism' (Figure C).<sup>11</sup>

**Figure C: Agreement for an IPSB was held in high esteem than other proposed measures to contribute to better calibres of financial advisers**

**To what extent do you agree that the following will contribute to a better calibre of financial adviser?**



<sup>11</sup> BPRI research for the CII, sample size: 160 MPs interviewed between 27 April to 18 May 2009. Data weighted to reflect political party distribution in the House of Commons.



Source: BPRI research for the CII, May 2009

## Practitioner support

Finally, our views are informed by consistent member research showing strong and ongoing support for increased professional standards.

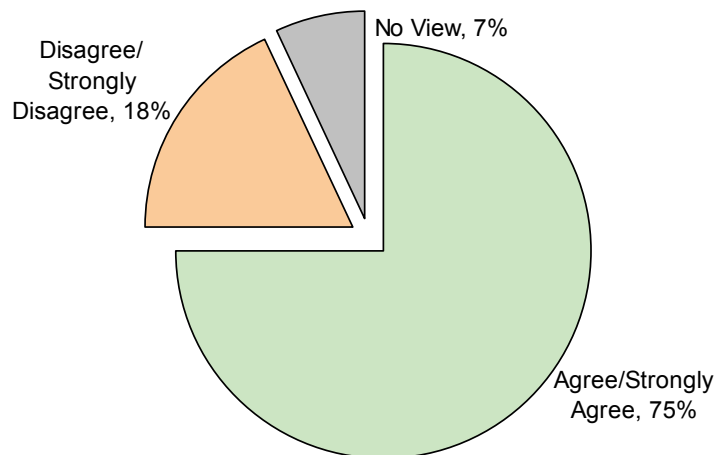
We have undertaken a regular survey of our members over the past couple of years on the evolving RDR proposals, all of which have shown strong support for the development of professional standards to help boost public trust and confidence.

The most recent of these surveys showed the following:<sup>12</sup>

- Three quarters (75%) agree that a single independent professional standards board should be established to oversee professional standards of the existing professional bodies.
- 82% say that it should be mandatory for an independent financial planner or adviser to be a member of a professional body.
- A high proportion (89%) feel that qualified professionals should be required to meet annual Continuing Professional Development (CPD) requirements.

**Figure D: Practitioner Support for an IPSB**

**To what extent do you agree with the statement “A single independent professional standards board should be established to oversee professional standards of the existing professional bodies”?**



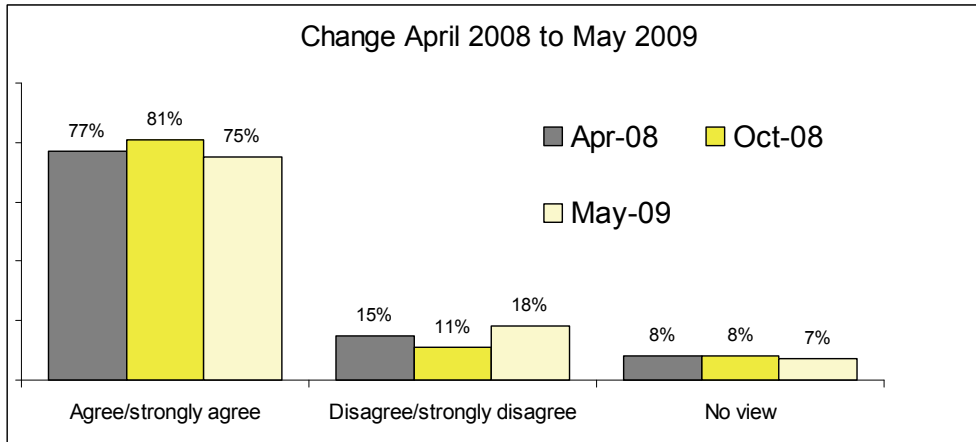
Source: Ernst & Young/Chartered Insurance Institute, May 2009.

This member support has remained strong and reasonably consistent through the ups and downs of the RDR process (see Figure E).

<sup>12</sup> Ernst & Young research for the CII, sample size 717 members of the Personal Finance Society and CII Life & Pensions Faculty, conducted in April 2009. 80% were authorised financial advisers, of which 88% were IFAs. For survey report as well as previous RDR surveys conducted in April and October 2008 and September and November 2007, see: <http://www.thepfs.org/pages/memberservices/RDR/professionalism.aspx#Survey> Full reports available from the CII upon request.

Figure E

Adviser support for IPSB over time



Source: Ernst & Young/Chartered Insurance Institute, April 2008-May 2009

At this early stage of development, we are greatly encouraged by such high levels of support for an IPSB from the public (81%), MPs (86%), and practitioners (75%).

With established backing from stakeholders both within and outside the sector, we are optimistic about the prospects of a credible and robust IPSB developing to play a major role as a part of the sector’s ‘package of professionalism’.

### 3. The broader context: Developments in professional regulation

- Forms of professional regulation
- New focus on transparency in the public interest

Financial services is not alone in grappling with the prospect of new forms of regulation over the past few years. Other professions have seen considerable developments in the way that standards issues are overseen and such oversight is structured. Most of this has been in reaction to a trend away from trusting professions, however competent, to look after themselves, to a more public-facing model where the profession is subject to tiers of independent oversight.

#### Forms of professional regulation

Traditionally, professional bodies have employed different forms of regulation in order to control standards and maintain quality in the profession. Many have focused on entry standards (*ex ante* regulation) more than monitoring and complaints (*ex post* regulation). However, if a profession acts together to set prescriptive rules about who can enter the market, what they can do, how they can do it and what they can charge for it, this can damage competition by preventing innovation and change. In short, the rules can act against the consumer interest. Much work has been done by competition authorities in the UK over the last 20 years or more to open up professions to more competition. Barristers, solicitors, pharmacists, dentists, and consultants have all seen changes brought in to curb their 'monopolistic' position.

*Ex post* regulation, involving quality monitoring, complaints handling, sanctions and redress may be more aligned with consumer interests, although consumers need to have confidence that the professional body is impartial in dealing with them. External regulation of the professional body or bodies can offset these concerns.

#### New focus on transparency in the public interest

Given this context, the development of an independent professional standards board is a logical step within the RDR process. It focuses squarely on the public interest in a similar way to the development of regulatory oversight in other professions.

The recent Hunt Review of legal regulation (October 2009) provides an example of this trend in other professions. It describes how the UK has witnessed the emergence of two key tiers of regulation over recent years: front line regulators and sectoral "meso-regulators".<sup>13</sup>

**Front-line regulators:** these are accountable to the meso-regulators and responsible for specific professions such as the accounting and legal professional bodies. Examples are the Institute of Chartered Accountants (ICAEW) and Bar Standards Board.

**Sectoral meso-regulators:** these carry overarching responsibilities across sizeable and diverse professions such as law, accounting and health care. Examples are the Council for Healthcare Regulatory Excellence, the Financial Reporting Council and the new Legal Services Board.

Meso-regulators enjoy a high degree of operational autonomy, and are accountable to ministers and Parliament rather than the regulated professions. They are charged with "providing sustained oversight to the front-line regulators that central Government agencies lack the specialist knowledge to offer. Such bodies have been designed expressly to address concerns about traditional regulators, namely that self-regulatory bodies have been more responsive to practitioners' concerns than to those of the general public".

The Hunt Report recommends "the most appropriate arrangements for the Legal Services Board". The report outlines an independent structure as follows:<sup>14</sup>

- a Board led by a part-time Chairman and a full-time Chief Executive and consisting of between 12 and 16 members.
- the Chairman and Chief Executive should, "for reasons of independence," be non-lawyers and that there should be a lay majority on the Board.

<sup>13</sup> *The Hunt Review of the Regulation of Legal Services*, Rt Hon Lord Hunt of Wirral, October 2009, p.26

<http://www.legalregulationreview.com/files/Legal%20Regulation%20Report%20FINAL.pdf>

<sup>14</sup> *Ibid.*, p.17

- The appointment of the Chairman and Chief Executive should be fixed term, on merit and made by the Secretary of State for Constitutional Affairs, in consultation with the judiciary, following a 'Nolan' type process.
- The LSB should be held accountable to Parliament and the public. It should consult widely before making major decisions; such decisions might be subject to appeal in defined circumstances.
- The LSB should be funded through a mix of Government and practitioner input. The Law Officers should not have a role in the regulatory framework".

Recent developments in other professions have demonstrated that there is considerable best practice financial services can draw upon to build an appropriate framework of professional standards for the retail investment sector. Most of all, the concept of independence – both from the industry and professionals bodies themselves - should be a central component of future proposals.

## 4. Our View: It's the consumer, stupid....

- A single structure of professional standards
- Independent of existing regulation
- Lay representation
- Oversight, not implementation
- An agent inspiring consumer trust and confidence

The proposals for a Professional Standards Board (PSB) are central to unlocking the door to public trust and confidence. In our fifth RDR position paper published in December 2007, entitled *Building Trust and Confidence in Financial Services: A New Professional Framework*, we set out a vision for an independent professional standards board to help secure, and over time, improve public confidence in financial advice. Many of our views are still relevant to the present consultation. We envisaged:

*“A single structure of professional standards for all retail financial services market personnel engaging with customers, comprising a hierarchy of educational and technical standards related to defined sector job function, and a common framework of ethics which would apply to all”.*

### A single structure of professional standards

The Professional Standards Board should oversee the professional bodies who would in turn be responsible for supporting the new professional framework envisaged in Chapter 5 of the FSA's RDR consultation in July 2009. The IPSB should set standards for:

- qualifications;
- continuing professional development;
- ethical behaviour; and
- ensuring disciplinary action is taken against individual advisers who do not adhere to those standards set by professional bodies, or by the IPSB itself, if the transgression is of a more serious nature.

In this new framework, professional bodies, like their members, would need to demonstrate their standards and procedures meet the public interest test.

The IPSB should not try reinvent or duplicate existing arrangements and must be cost effective. Above all, it should act to defend the public interest rather than the interest of industry participants.

### Independent of existing regulation

Professional bodies already provide a strong infrastructure to deliver much of the existing and future activity envisaged by the FSA. However, for a variety of reasons, it is important to have a body which commands public trust in its independence, and can act as a guardian of standards in the public interest. This draws from the lessons – and public challenges – which have been faced by other professions and the models they have developed as a result.

*Independence from the sector:* the IPSB must set standards for sector practitioners including the professional bodies, therefore must be seen by the public as separate from it and not influenced in any way by its interests.

*Independence from the regulator:* while it is tempting to position the IPSB within the auspices of the FSA, this would not be appropriate for three reasons:

- First, individual practitioner professional standards, while linked to regulatory processes such as the principles of business or the approved persons regime, must be seen as different. Such standards should not be seen as a form of statutory regulation, but rather as a facilitator of it.
- Second, it is also necessary to preserve the ethos which should be encouraging the highest standards excellence in terms of conduct and knowledge rather than compliance with the minimum.
- Third, the formation of the board would be answering the call once the RDR is implemented. Its benefits need to be actively communicated to the public at large. This is not a task which sits well with a regulator, or for that matter the professional bodies themselves.

## Lay representation

To preserve its independence in the widest sense and to maximise public confidence and reassure the public, the IPSB should draw widely in its membership from outside the financial services sector. This is central to the objective of maintaining and raising standards in financial advice over a realistic timeframe.

In addition to appointing an independent chair, the board should have a majority of non-industry representatives, and a significant number should have a consumer representation background or experience of professional standards from other professions. The FSA Board faced criticism for having, until recently, no members with a background in consumer representation; the IPSB should avoid this mistake. Other regulators such as the Food Standards Agency and the Legal Services Board specify that experience in consumer issues should be represented in the make up of the Board. It should not be assumed that anyone with a non-industry background is automatically going to be able to represent consumers, understand the diversity of consumer needs, appreciate the importance of objective research in informing their views, and have the confidence to take a stand in the face of industry expertise when necessary.

## Oversight, not implementation

The Standards Board should ensure there is no arbitrage of standards across the diversity of the professional bodies and offer the public reassurance of the quality of standards with the profession. Such a role over time could have a major impact in public perception in a similar way as, for example, the Food Standards Agency has achieved over the last decade in food safety and consumer information.

The Board must be mindful to retain its oversight function and not become an implementation body (which should be the role of a professional body) thereby keeping the model as simple and cost-effective as possible.

## An agent inspiring consumer confidence and trust

The Board must act as a guarantor of consistent and, over time, higher standards. It also must act as an agent to demonstrate change to the public, helping to inspire greater consumer confidence and trust.

## 5. Dispelling myths about an IPSB

- **Myth 1: Duplication**
- **Myth 2: Cost**
- **Myth 3: Complex resource and development**

Understandably, when the concept of an IPSB first appeared in the FSA's RDR report in November 2008, a number of concerns were raised.<sup>15</sup> In part, there was confusion over the concept itself. However, there were also a number of concerns expressed by the market and others which were genuine, well-founded, and worth addressing.

These concerns were mostly around the possibility of dual regulation, the potential cost of an IPSB, and the necessity for another body given the many professional bodies operating in this space.

We believe that, properly constituted, an IPSB should address these, and other, potential concerns.

### Myth 1: An IPSB would be a duplication of other, concurrent regulation

#### Reality: An IPSB would have a clearly defined statutory role sitting above professional bodies and setting a common standard

The question of regulatory duplication should be resolved by giving the IPSB a clear statutory role and an unambiguous demarcation of its role as opposed to the FSA or Financial Ombudsman Service (and indeed professional bodies).

There has been some confusion about whether an IPSB would be another professional body. As envisaged it would have a very specific role sitting above, rather than duplicating, the functions of what existing professional bodies do. Some might argue that there are too many professional bodies, but that is a different debate and confuses the need to have a common standard to uphold rather than a diverse number of suppliers.

### Myth 2: An IPSB would be expensive

#### Reality: Cost should be limited, similar to the costs of membership or qualifications today - and the long term savings in regulation could be huge

Some observers have recently argued that the IPSB would cost upwards of £40m annually to deliver.<sup>16</sup> As long as the role of the IPSB is limited to that of oversight, we believe the budget will be a fraction of this.

As outlined above, the IPSB should sit above professional bodies and oversee, not deliver, the appropriate professional standards for the industry, and act as a guardian of the public interest. It should not replicate their activities and therefore need not duplicate a lot of existing activity. The IPSB should be a 'standards' board and focus on oversight, not the operational detail of the development of professional standards. It should act as a guardian of the public interest, ensuring that professional bodies, as well as their adviser members, are delivering on raised professional standards.

Cost is a legitimate issue, but as the CII RDR Position Paper 5, *Building Trust and Confidence in Retail Financial Services*, first stated:

*"There will be a cost – effectively the cost of professional body membership for all employees and support for them through exams and continued learning plus the cost of the new professional standards regime. But the main benefits are far greater: an independent endorsement that a firm – or even better, the whole retail market – has embraced professional practice and an emerging awareness that public trust – intangible but essential – is on an upward path".<sup>17</sup>*

While it is not the purpose of this paper to estimate exactly what this cost will be, we believe it will be far less than the suggested £40m figure, based on the experience from other professions. Two existing organisations provide the closest relevant examples: the Legal Services Board and the Professional Oversight Board of the Financial Reporting Council.

<sup>15</sup> See for example, "Sifa says professional board is a red herring", *Money Marketing*, 15 January 2009;

<sup>16</sup> "Cost of standards board could hit '£30m-£40m", *citywire.co.uk*, 2 November 2009.'

<sup>17</sup> *Building Trust and Confidence in Retail Financial Services*, CII RDR Position Paper 5, – Dec 2007  
[http://www.thepfs.org/downloaddata/RDR\\_position\\_paper\\_5.pdf](http://www.thepfs.org/downloaddata/RDR_position_paper_5.pdf)

#### a) Legal Services Board:

This body was formed by the Legal Services Act 2007 with an over-riding mandate “to ensure that regulation in the legal services sector is carried out in the public interests.” Its scope is well beyond that envisaged here for the IPSB: its eight statutory objectives including “protecting and promoting the public interest” and “promoting competition in the provision of services in the sector.”<sup>18</sup> Only one of these vaguely mirrors that of the IPSB:

*promoting and maintaining adherence to the professional principles of independence and integrity; proper standards of work; observing the best interests of the client and the duty of court and maintaining client confidentiality.*

Delivering this statutory objective involves overseeing some 13 “approved regulators” including the Law Society, the Solicitors Regulation Authority, the Bar Council, and the Institute of Legal Executives, which are in turn responsible for regulating some 120,000 lawyers practicing in England and Wales. To deliver all eight statutory objectives, the LSB has an annual budget of £4.3m.<sup>19</sup>

#### b) Professional Oversight Board of the Financial Reporting Council

A second example is the Professional Oversight Board which is part of the Financial Reporting Council. Like the IPSB, its role is “to support investor, market and public confidence in (its members) by:

- independent oversight of the regulation of the auditing profession by the recognised supervisory and qualifying bodies;
- monitoring the quality of the regulation of the accounting profession by the professional accountancy bodies; and
- independent oversight of the actuarial profession by the professional actuarial bodies and promoting high quality actuarial work.”<sup>20</sup>

To discharge this role, this body reported an operating budget of £1.5m in 2008/09. The wider Financial Reporting Council comprising of five other bodies had a budget totalling £11.9m.<sup>21</sup>

### Myth 3: An IPSB will require massive resource and the development of a complex structure to oversee professional bodies

### Reality: An IPSB would require a small scrutiny body to set overarching standards; most of monitoring would still be done by individual professional bodies

The structure of such a body does not require an army of people – the vast bulk of the monitoring of professional standards is already done by professional bodies. However, increased professional standards will require professional bodies to improve their oversight functions, which will incur some extra initial and ongoing cost. Still, much of this cost (and that of the IPSB) will be offset by having a larger number of advisers become members of professional bodies, thereby sharing in the cost.

Like other professions, an IPSB would require a scrutiny body with its own powers to:

- ensure there is no professional body arbitrage on standards, by setting overarching standards; ensure these are met, and, over time, promote further raising of standards if required;
- make certain more advisers use the mechanism of a professional body to develop their own professional career (the FSA estimate that under half of advisers are members of a professional body – well below other comparable professions);
- accredit and oversee professional bodies; and possibly,
- have a role in promoting direct to the public why the sector deserves the trust and confidence of the public through the demonstration of these new standards.

<sup>18</sup> Legal Services Act 2007 Part 1(1). See also “About Us”, Legal Services Board website:

[http://www.legalservicesboard.org.uk/about\\_us/index.htm](http://www.legalservicesboard.org.uk/about_us/index.htm)

<sup>19</sup> Legal Services Board *Business Plan 2009/10*, Sep 2009

[http://www.legalservicesboard.org.uk/news\\_publications/publications/pdf/businessplan\\_2009\\_10.pdf](http://www.legalservicesboard.org.uk/news_publications/publications/pdf/businessplan_2009_10.pdf) See also Ministry of Justice, *Legal Services Bill Supplementary Regulatory Impact Assessment*, June 2007, URL

<sup>20</sup> About the Professional Oversight Board, <http://www.frc.org.uk/pob/about> (accessed 24 Nov 2009)

<sup>21</sup> Financial Reporting Council Annual Report 2008/09, p.24 <http://www.frc.org.uk/publications/pub1983.html>



## 6. The benefits of an IPSB

- **Consumer clarity and increased savings**
- **Pride in recognition of professional skills**
- **Job satisfaction and professional esteem**

Research by the Financial Services Consumer Panel shows that consumers tend to lump all types of financial adviser together, and see them as salesmen who are “ultimately out for their own interests rather than those of the consumer.”<sup>22</sup> In terms of perception, financial advice is a long way from being seen as a desirable career in the way that other professions are. However, consumers want to trust advisers.

YouGov research that shows that 77% of people thought knowing an adviser was “on their side” would build trust.<sup>23</sup> This research also revealed that belief that an adviser is “on your side” is a key point when considering a financial adviser. Establishing and maintaining a culture of trust and respect will be essential if the retail distribution sector is to foster on-going customer relationships that are both profitable for firms and which leave consumers confident that they will be sold good value products that meet their present and future needs.

### Consumer clarity and increased savings

Over time the development of robust standards should leave consumers with a clear view on the required standards of behaviour by advisers and what will happen should these standards fall short.

If the IPSB did succeed in raising standards across the board, and as a result consumer confidence in the financial services industry, there is huge potential for increased consumer engagement with the sector and hopefully increased investment in long-term savings.

Many consumers do not access services as they are confused or intimidated. They don't know how to find a good adviser so don't bother looking. Many others go to the high street big names in search of the security of a familiar name. Improved trust and the notion of professionalism will help to remedy the situation. The challenge is to raise standards and then communicate this change to the media and consumers in a way that changes perceptions for good.

### Pride in recognition of professional skills

An ethos of integrity and pride should be encouraged to replace the culture of meeting minimum compliance standards. Changing the culture of an industry takes time, but it is achievable and the rewards are great. The IPSB should stipulate a core code of ethics for the industry to which members must adhere through their professional body. Increasing pride in recognition of professional skills and judgement and the “added value” this can bring to clients will make the job much more rewarding, and bring more new, high-calibre recruits to the industry.

### Job satisfaction and professional esteem

The development of professional standards should, over time, support and encourage increased status for the adviser profession, as well as improved job satisfaction for professionals in an industry commanding greater trust and respect, on a par with other professionals with rigorous standards like accountants and lawyers.

An IPSB would support investment in professional careers through improved qualifications and ongoing investment in CPD, and provide a more thorough industry-wide oversight for CPD and ethics.

<sup>22</sup> *Exploration of consumer attitudes and behaviour with regard to financial advice and the implications of RDR proposals*, research paper commissioned by the Financial Services Consumer Panel, Jan 2008 [http://www.fs-cp.org.uk/publications/pdf/rdr\\_report.pdf](http://www.fs-cp.org.uk/publications/pdf/rdr_report.pdf)

<sup>23</sup> Research by YouGov for the Chartered Insurance Institute, May 2009. *Supra* note 8.

## 7. Conclusion – Time to grasp the nettle

It is important for the benefit of the whole economy as well as individual consumers that the quality of financial advice is visibly improved in the eyes of the public. This rationale was at the heart of the reasons for the establishment of the Retail Distribution Review three years ago, and it must remain at the forefront of our minds as we progress the debate about the future of professional standards in financial advice.

This paper has argued that, in order to offer a genuine contribution to restoring faith, an IPSB must oversee and promote:

- improved standards across the board
- a visible sign that things have changed
- ensure the public are signposted to reliable, high-quality advice

Developing an IPSB and adapting to the changes this will bring won't be easy. But, with some investment now, we have the potential to gain far more in social capital than we lose in the initial cost of setting up and adjusting to the new scheme.

The RDR provides us with a platform for change, and such opportunities in the lifespan of a profession are rare. Consumers and advisers agree that the focus must be on professional standards to raise trust and confidence in the sector. With a tried and tested oversight model from other professions, we can and should develop improved standards across the board, higher quality advice, and a brighter future for the profession.

**The time is now to grasp the nettle.**

# Appendix – Joint Statement of Principles on Professionalism in Retail Financial Services

## “THE EDINBURGH DECLARATION”

As the professional bodies offering most of the qualifications, membership and continuing professional development schemes for the retail financial services sector, we believe there is a strong desire from our industry to have high standards of professionalism.

Our respective responses (and those by the rest of the industry) to the FSA’s Retail Distribution Review discussion paper demonstrate a genuine desire for an industry-led solution in which professional bodies play a significant role. This builds on the fact that our bodies have already investigated, developed and/or implemented many initiatives to improve professionalism as this is the core remit of professional bodies.

We agreed to formulate this joint statement given this level of agreement and resolve. It commits us – as well as any other interested party – to a series of measures across three key areas: tackling the “alphabet soup” of qualifications; improving professional standards and ethics; and developing higher, minimum qualifications for the retail financial sector.

We think this set of principles will find widespread support from regulators, consumer groups, trade bodies, companies, individuals and other stakeholders.

### 1. Tackling “Alphabet Soup”

- Measures to **simplify the “alphabet soup”** of financial adviser qualifications and designations; in an effort to improve the public’s understanding and confidence in financial qualifications.

### 2. Improving Professional Standards and Ethics

- A **single, independent professional standards board** (the ‘Board’), with significant ‘lay’ representation and an independent chairman, which would create, oversee and develop professional standards ensuring consistency and high standards. The Board would sit above rather than replace existing professional bodies. This would be supported by the retail financial services sector, the regulator and strengthened professional bodies.

The standards of the Board would be underpinned by the following:

- **Membership of a professional body** to be seen as a demonstration of professionalism;
- The development of **an industry-wide Code of Ethics, and with practice standards** in more detail set by each professional body for its members;
- **Continuing Professional Development (CPD)** for which a framework would be agreed by the Board then implemented by the professional bodies in more bespoke detail, under the auspices of the Professional Standards Board<sup>24</sup>;
- Developing the concept of **practising certificates** tied to the completion of CPD, qualifications and compliance with the Code of Ethics and practice standards; and
- A new **complaints handling/discipline system** in conjunction with the regulators.

### 3. Introducing a Step Change in Benchmark Qualifications Levels (and Providing Transition Arrangements)

- The introduction of **higher-level benchmark** qualifications for advisers;
- Appropriate **professional standards for the “primary (or assisted purchase) tier”** or whatever emerges in this space;

<sup>24</sup> In addition to the measures proposed here, it has been agreed that each of the professional bodies signing this Declaration will, with immediate effect, recognise CPD undertaken under the auspices of another signatory’s scheme as a precursor to the development of an industry framework for CPD.

## Building trust through independent standards

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- Pragmatic **transition arrangements** to enable this to take effect, but which send a clear signal of a “step change” to higher standards as soon as realistically possible; and
- Encouragement of individuals and firms who **aspire to higher qualifications** even beyond the new benchmark level.

The undersigned organisations agree to commit themselves to these principles and building support for them within the retail financial sector:

The Chartered Insurance Institute (CII)

The Chartered Institute of Bankers in Scotland (CIOBS)

Institute of Financial Planning (IFP)

Securities & Investment Institute (SII)

31 March 2008