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Our replies to the 70 questions* posed by the Review of Retail Distribution:

Chapter 2 - The Future of Retail distribution

Professional Financial Planning and Advisory Services – Full Advice

Q1: How will increased requirements and consequential higher costs of providing full professional financial planning services affect advisory firms? Could the impact be significant enough for them no longer to offer these services, and, if so why?

Possibly, but the ‘market in advice’ will decide and if there is a modest withdrawal so be it.

Q2: Is it helpful to re-define the term ‘fee-based’ to mean any advisory remuneration derived in discussion with the customer, and not influenced by the product provider? How would this work in the different market sectors?

No, it is not helpful. There is a fundamental distinction between remuneration on a time/knowledge basis, which allows unbiased advice, and remuneration by commission, which does not. Re-defining ‘fee-based’ is just an attempt to blur this to allow the current sales-driven industry culture to remain undisturbed. Other problems are (a) the scope for fudging the discussion, bearing in mind that there may well be embarrassment about discussing remuneration and (b) that the discussion cannot be complete until a sale is agreed.

Q3: Do you agree with defining ‘independence’ in terms of freedom from bias, even if the adviser only selects products from a limited range? How far should this be taken, if at all? Would an independent label still have value, if these ideas are implemented?

The essential is to separate selling from independence and not to allow the use of the term “independent” for anyone where remuneration depends on selling. ‘Freedom from bias’ must be defined as including freedom from commission.

In terms of the question we agree with the definition but the adviser must declare the range it supplies - no one can be expected to know every product in the market but they must know enough to advise that a particular type of product may be suitable

* Since the questions in the Review are generally based on the assumption that the model will be adopted, we have not always been able to answer them but have done what we could.

Q4: Should we allow, in principle, the grandfathering of advisers to the new professional financial planner role if they do not have the necessary minimum qualifications or an equivalent? If we did allow this, what might be the consequences and how should we then encourage advisers to secure relevant qualifications? If you think we should not allow grandfathering, why not?

The restoration of public trust in the advice market is paramount. Automatic grandfathering should not be allowed. It would be necessary to allow a reasonable, but not excessive, period for retraining General Financial Advisers

General Financial Advisers

Q5: Do you agree with the proposed distinction between professional financial planner and general financial adviser? If greater distinction is needed between general financial advisers and professional financial planners, how might this best be achieved?

We are uneasy about the dual category and see it as creating even more confusion for the consumer. See also Q3 and Q6. It is possible that being a commission based GFA might be more remunerative than being a fully-qualified PFP. If adopted, the distinction should be controlled by the Qualifications Curriculum Authority (or equivalent) and not by the industry

Q6: Is there sufficient incentive for advisers to want to be professional financial planners? What further restrictions should we place on the permitted activities of general financial advisers, if any, and why? Should they have to offer a fee option?

There is nothing inherently wonderful about PFPs. No need for special incentives. The market will decide, if the right market conditions exist. GFAs should have to offer a fee option, with commission only being paid if the consumer actively opts in, having first provided evidence that he or she fully understands the impact on their financial outcome as well as the true value to the adviser of those commissions. A measure such as "reduction in yield" will not be understood by the majority of consumers. There is a limit to what consumer education can achieve; the most vital message for education to get across should be the importance of only taking fully independent financial advice.

Q7: Do you think that this two-tiered approach is desirable and, if so, should this be a transitional feature of the market or more permanent? Should there be any other classification of adviser offering full advice services beyond professional financial planner or general financial adviser?

See Q.5

Q8: What are the arguments for and against mandating the use (or preventing the use) of particular remuneration methods, for instance requiring the use of fee-based remuneration according to our wider definition by all advisers? What might be the market consequences if we took such action? How else might we encourage firms to adopt particular remuneration methods (or discourage the use of some others, for instance traditional indemnity commission)?

Commission is such a dominant feature of the landscape and has such a strong effect on recommendations that alternatives need to be considered very carefully. We are disappointed that the two countries (Denmark and Finland) that have banned initial commission are dismissed as smaller economies and are not convinced that the presentation of the arguments against following their example in Annex 3 of the RDR is entirely unbiased. We think that the continuing effect of the changes in these countries should be monitored closely by the FSA

bearing in mind that the interests of the consumer are paramount. We would also comment that the document contains essentially the proposals of the industry; the voice of the consumer is largely unheard within its pages.

Q9: Should we allow, in principle, the grandfathering of advisers to the general financial adviser role if they do not have the necessary minimum qualifications or an equivalent? If so, how should we encourage (or require) any up-skilling to the necessary standards?

See Q4.

Primary Advice

It is very difficult to answer questions about Primary Advice without a clearer understanding of how it is intended to operate in detail and, especially, the outcome of the Generic Advice review. When we see what is coming out of the latter it will be possible to consider what place there might be for Primary Advice. However, we go further to answer this in Q.16

Q10: What are likely to be the characteristics of the target consumer segments for Primary advice? **Difficult to say since we are unhappy with the concept**

Q11: Do you think there is enough potential benefit suggested by this DP for Primary Advice to become a significant advice channel in the UK? If not, what else might be done to encourage firms to enter such a market? **We are unconvinced.**

Q12: What should be the conditions for Primary advisers to be called independent? **The word “independent” must not be debased as it has been in the past and so it must only be used where the adviser’s remuneration does not depend on making a sale. Indeed, the word “advice” is itself questionable if the adviser’s remuneration depends on making a sale.**

Q13: Is Primary Advice the right name? Would use of the term ‘information’ instead of ‘advice’ give consumers more confidence to use these services? What might be the implications of using the term ‘information’? **So long as ‘Primary Advice’ ‘Generic Advice’ and ‘Basic Advice’ all continue to exist as separate channels then confusion is inevitable, whatever the name. We would like to see a better name for Generic Advice - “Primary Advice” would fit the bill!**

Non-advisory services

Q14: What issues in relation to non-advisory services should the Review consider, and why? **We see no problem with execution only business - indeed under some of the charging regimes proposed it would have the advantage of lower cost to the consumer. Intermediaries would be looking for some protection from customers who sought free advice and then bought direct.**

Other implications of service propositions

Q15: What are the possible implications for consumers, if the proposed market for advice is introduced? **Confusion, and not necessarily an increase in trust in the industry.**

Q16: Would the ideas put forward help more consumers to access financial advice relevant to their needs? Do you have other ideas?

The key objective should be to enable people to establish the type of savings that they need before they are subjected to the selling process. With most consumer purchases prospective buyers have an idea of what is available in the market before starting out. Then they are able to shop around before committing themselves. At present in the investment product market most people do not have the knowledge to do this and are reliant on the salesman.

We see two routes as possible ways of moving towards this objective each possibly able to stand alone or to work in combination. These are (i) Generic Advice and (ii) Financial Education.

To be useful Generic Advice needs to go far enough to advise people on the benefits they must seek to provide for and to then direct them to the natural place to obtain those benefits. This might be the local Post Office or NS&I website for National Savings products, building societies for deposits and cash ISAs, low cost trackers or investment trusts for equities (with help in finding them on the Generic Advice website) and IFAs if “products” are appropriate. If the IFA’s advice were restricted to choice within a pre-determined type of product, considerable cost savings might result. But it must be understood and fully accepted that what people need is advice first and products, if appropriate, second. We shall be pointing out strongly in our response to the Thoresen interim report the gap in the market in this area.

Basic financial education can be confined to education in sound principles, such as risk, return and compound interest, and the basic building blocks of investment, which are cash, shares, property and debt management. A lot of this could be done cheaply via the internet.

Complicated and expensive advice is only necessary because the industry sells complicated and unnecessary products. It should be a condition for all product selling that consumers are made aware of the education and generic advice services and advised that they should not purchase products without using them. This assurance that all product purchasers have a basic understanding of investment principles could allow the burden of regulation on the advice industry to be lifted (or at least mitigated).

Conclusions

Q17: Do you think that the view of the future distribution market for investment products set out in this DP can address the current market problems? If not, why and what could? **It seems unlikely - as indicated in our covering letter a more drastic approach is almost certainly necessary**

Q18: Will many firms make significant changes to their business models? If so, why and how? If not, why not? **No comment**

Making the transition

Q19: We welcome views on what would represent a sensible transition period for the industry. **From the customer’s point of view this should be as short as possible. Industry will press for as long as they think they can get away with but the FSA will have to judge what is**

the shortest period that is fair to allow for retraining. A sensible interim step towards more radical change would be to require that all financial products are available on the basis that no commission is paid to the sales channel, whether that channel is a broker or an employee (the bankassurance model).

Q20: In what ways could we help firms to change their business practices and standards to adapt to new requirements that might emerge from this review? **No comment**

Chapter 3 – Professional financial planning and advice

Higher standards of competence and behaviours

Q21: Do you agree that these qualifications are at the right level for the roles described? **Not able to comment. However, remember that exams are not everything - advisers need up-to-date knowledge of what is happening in the market and practical experience of customers' needs together with a motivation simply to do the best for the client.**

Role profiles

Q22: Do you agree that there would be clear benefits for consumers of introducing role profiles? **Obviously it benefits consumers to have a clear description of what they are consuming. We agree that the industry should lead here, but we see no reason to be prescriptive about a standardized role profile for each level of the profession – if it is to be a profession.**

Q23: What role should regulation play in helping to make the necessary changes to qualifications and behaviours? **Regulation should be minimal and should focus on an insistence on clarity supported by publicly provided advice and information.**

Better labelling of services

Q24: Do you agree that better labelling of available services would help in building the professionalism and reputation of the sector and in making services clearer to consumers? **Yes. Reputation has been fundamentally (maybe terminally) damaged by allowing selling/salesmen to be described as advice/advisers. Accordingly we are disappointed to see in the Review the term “Advice” still used in the context of a sales process.**

Enhanced role and focus of professional bodies

Q25: Do you agree with these proposed measures to enhance the role of professional bodies and do you think these would make a difference to the professionalism of the financial advice sector? **If this is to be achieved much stronger professional bodies will be required with clear codes of conduct and disciplinary procedures.**

Q26: Do you agree with the overall recommendations of the Professionalism and Reputation Group? **No further comment**

Q27: Do you have other suggestions for how the overall aim of raising professional standards and enhancing the reputation of the market could be met? **No further comment**

Q28: What role should we play in raising professionalism as opposed to relying on the professional bodies? Or can the industry lead the way in delivering improvements? **Industry should lead the way in response to demand from the market.**

Note that the first para of Q3 above holds the key to true professionalism.

Regulatory and prudential standards to manage liabilities

Q29: Do you agree with the group's view that a system of risk-based financial resource requirements for personal investment firms, with a higher minimum requirement than at present, and which includes regulatory dividends, will contribute to better outcomes for consumers and a more sustainable distribution sector? **We disagree. The primary aim must be to lower the cost and increase the accessibility of advice. One way of increasing efficiency and removing regulatory burden would be to throw more responsibility onto professional bodies – perhaps by levying the organization based on an assessment of its standards and leaving the organization to recover from its members.**

Q30: Do you agree that firms that give financial advice should be required to make some provision or arrangement for liabilities to customers which may come to light after they have ceased trading? **The FSA must make sure that the PI cover that firms buy continues after they cease to trade in respect of occurrences while trading.**

Q31: Do you agree that giving small firms incentives to employ compliance service providers will help increase the quality of their advice? Do you have other ideas on enhancing supervision of small firms and what are they? **We don't see any merit in incentivising the employment of compliance service providers. It is outputs that are important, not inputs. Possibly the supervision of small firms should be the responsibility of their professional body, with appropriate rules for risk-based levies and provision for compensation claims.**

Q32: Do you agree that we should consider changing the time limits we set for the periods within which cases can be referred to the FOS by introducing a 15-year 'long-stop', such as applies in the courts? **This is difficult but we feel that people should be able to work out in 15 years that they were sold the wrong product.**

Q33: What do you consider to be the risks and benefits of introducing a 15-year 'long-stop'? **This is a matter of balancing the practical problems of running a business when there is a potential liability running for an extremely long period against total consumer protection. The availability and cost of insurance should be taken into account**

Q34: Should this 15-year 'long-stop' apply to business undertaken before and after the introduction of this 'long-stop'? **No further comment**

Q35: Do you agree that stakeholders should try to identify circumstances that may prompt valid complaints at an earlier stage, and within a 'long-stop' period? **Yes - if "stakeholders" means customers - people have to take some responsibility**

Q36: Do you agree that stakeholders should seek ways of ensuring that measures taken by the industry to prompt valid complaints are taken into account when deciding whether a consumer was aware that he or she had grounds for complaint? **Yes**

Q37: If it is not possible to agree on consumer responsibilities, would it help to agree on a set of 'sensible consumer actions' when buying a retail investment product, which could be made available to customers and taken into account when considering complaints, even if these are not legal obligations on consumers? Do you have other suggestions? **Indeed. 'Sensible consumer actions' should be part of the generic consumer advice, and a condition of the sale of retail products should be that sellers draw attention to this advice. But this not imply signing away all rights.**

Q38: Do you agree that preparing a record of good contemporary market practice, by a group with strong industry and consumer representation and credibility, would lead to greater certainty about the standards against which advice will be judged? **It is difficult to see that this is a realistic suggestion seeing the enormous range of possible situations.**

Q39: What do you think the cost of preparing a record of good contemporary market practice, and revising it annually, might be? **No comment**

Q40: What regulatory incentives, in addition to risk-based prudential requirements, do you think would encourage financial advisory businesses to improve the quality of their advice? **No further comment**

Transparency of remuneration

Q41: What data should be collected, and from whom, to help us to focus our attention on those firms most likely to be causing consumer detriment when advising consumers to switch product? **No comment, apart from pointing out that it would be much better to remove the systemic failure of an inappropriate remuneration model, than leaving things as they are and trying to catch the more egregious behaviour.**

Q42: Do you agree that greater clarity for consumers on what services are being supplied, how much they are paying for them, and more influence for consumers on remuneration generally will help to address inappropriate advice risks?

Yes!, Nevertheless we are not convinced that giving consumers choice of remuneration method (like the menu) is helpful: it tends to make the process even more confusing and frightening. What is important is *clarity of the consequences* of the particular remuneration method being offered. The consequence of commission is bias. The consequence of apparently small percentage levies compounding over many years is a big levy. These two simple facts need to be explained. Consumers need a basic understanding of fees in £s not percentages and how to negotiate the fee for advice. Given the fact that policymakers have not yet taken the radical steps needed, after years of evidence, we have some doubts whether our legislators really appreciate the power of percentage levies over many years.

Q43: How, if at all, should we intervene on the issue of consumers' rights to switch off trail payments? **If the FSA is able to follow the examples of countries banning initial commission and thus making "churning" slightly less attractive to salesmen, then some form of trail commission will be essential as compensation for the initial advice. If initial commission is to remain then we think trail commission should only be allowable if commensurate with the continuing service being provided. However, this issue falls away if advisers are remunerated by fees.**

Customer Agreed Remuneration

We have discussed the operation of CAR with the two life offices currently making it available and clearly its application is limited so far. Our main problem with it is that until a product has been sold there is no vehicle to which the remuneration can be attached. In other words it does nothing to diminish the pressure to sell a product which may or may not be the best solution for the client. However, if the IFA is only approached, as suggested in answer to Q.16, when the need for the product has been established, there may be room for this system. Even then there would almost certainly be scope for fudging the discussion and so we still have considerable reservations about the whole idea.

This may be a suitable place to point out that, at present, commission-based advisers argue that commission is not subject to VAT, whereas fees are so subject (although possibly not if part of a sale process). This apparent inconsistency might be something the Chancellor could tackle in due course.

Q44: What do you think is the most appropriate approach under Customer Agreed Remuneration (CAR) to matching payments (in terms of amounts and timing) from the consumer to the provider, and payments from the provider to the intermediary, and why? What role, if any, might there be for regulation, or for guidance from other parties, to establish uniformity of approaches in the market? **No comment**

Q45: Do you agree with the concept of third party financing, and if so, how might this operate? **It is not clear why any third party should want to finance the adviser's remuneration - more information needed.**

Q46: What do you think are the main barriers, including taxation, which would prevent firms from moving to a CAR model? How might these barriers be addressed? **No further comment**

Q47: Do you agree that CAR could assist advisory firms to move towards a fee-based revenue model (according to the current definition of fees)? Could this help to erode the perception that advice is a free commodity? **No. It is a way of obscuring the fundamental economic drivers to allow the industry to hang on to an ersatz-commission model. The way to 'erode the perception that advice is a free commodity' is to insist on clarity of charging methods**

Q48: What are the main challenges to implementing CAR, and what might be the implications for consumers, firms (of all types) and the FSA? **No comment**

Q49: What market mechanisms (if any) do you envisage could contribute to reducing the risk of advisers exploiting the extra information they might possess on consumers' willingness to pay? Would the risk of price discrimination be a concern for consumers and how might this risk be mitigated? **No comment**

Chapter 4 – Primary Advice

As indicated earlier we do not feel that any more progress can be made with this concept until the way forward on Generic Advice has been established. We find it very difficult to see this

concept working in practice. We are supportive of the Government's efforts so far in the areas of generic advice and financial education, but there is a long way still to go.

Primary Advice

Q50: What should be our role in endorsing the criteria for segmenting consumers for Primary Advice? What role is there for the industry to provide appropriate standardisation? **No comment**

Q51: To what extent is there unmet demand for some form of simple advice, bearing in mind that the wider proposals in this DP and other market developments could alter the demand in the future? **There is an unrecognized need. Consumers, depending on their status, have either lost trust, failed to recognize the need (so unwilling to pay the cost) or mistake the selling process they undergo for advice. There might be considerable demand for a clearly independent Generic Advice service. This should not be underestimated in deciding how Generic Advice should be provided.**

Q52: Do you think that a Primary Advice service would benefit consumers and, at the same time, provide sufficient consumer protection? **Very doubtful**

Implications of debt for savings advice

Q53: What are your views on the extent to which people with existing debts should be encouraged or discouraged by financial advice to make investments and to save?

Savings advice must be within the context of the consumer's total financial position. Therefore such advice should include money management and the management of debt. The question of whether or not anyone should use available funds to pay off debt before making any investment is an individual decision which the advice process must handle. Generally debt will involve interest payable gross and at a higher rate than can be earned on any likely investment. This means that failure to recommend debt repayment would frequently be culpable behaviour by an adviser.

Q54: Are there any particular exceptions and how should we consider this in the context of decision processes for Primary Advice? **Where there is likely to be a clear need for cash, or further borrowing, in the relatively near future which could not be met by the amounts available for investment.**

Tax, Benefits and Primary Advice

Q55: What are the tax or benefits issues that could hinder the development and/or success of a Primary Advice service? What are your views on how these might be resolved? **No comment**

Standardised and portable fact finds

Q56: Do you think that these standardised and portable fact finds will help with the provision of advice to a wider range of consumers and help contain costs? **Our reply to Q.16 envisages the fact find being completed at the Generic Advice stage and then made available to any subsequent adviser.**

Q57: How should we strike the appropriate balance between verification of data and reliance on that data by other firms when using a portable fact-find? **No comment**

Product approval

Q58: Do you agree that using product criteria would help firms deliver appropriate products to the target market for Primary Advice? **Yes. Naturally the choice of criteria and how they are assessed are critical**

Q59: Do you think having FSA-endorsed products would help? If so, how would this work? **There is a potential minefield here, and it is not clear, even if product endorsement is a good idea, that the FSA is the right body to deliver the endorsement. The aim should be to get simpler products (to the extent that products are needed at all) which can easily be understood by the consumer and the costs of which can be easily compared. Endorsement must also extend to ordinary investments – equities and investment trusts, for example, and not just the constructions of the industry, commissioned or not.**

Q60: Do you have any other suggestions or options for limiting risks of inappropriate products being sold via Primary Advice? **No**

Suitability

Q61: Do you agree that different suitability standards would encourage delivery of Primary Advice and what should these be? **We have no knowledge of the problems caused by suitability standards. But in general we would suggest that if an adviser cannot put in writing very easily and cheaply why a product he is recommending is better than a similar standard low-cost product, that rather calls into question the quality of his advice.**

Decision processes

Q62: Do you think that decision trees would be a useful means of ensuring that consumers had access to some type of information/advice? **Yes (assuming the term ‘decision trees’ encompasses the process whereby a learner is routed through lessons and exercises depending on his answers to questions).**

Q63: What other ways might be used to standardise the advice process for Primary Advice? **Any form of inter-active web-based learning**

Application of risk-based prudential requirements to Primary Advice business

Q64: How should risk-/based prudential requirements and risk-based supervision for personal investment firms that give Primary Advice take account of the risk and consumer protection issues associated with it? **No comment**

Other ways of increasing access for more consumers

Q65: Does the boundary between advice and information need to be clarified? What other regulatory changes might help delivery of non-advised products to consumers in a

clear and meaningful way? **No comment**

Q66: Do you think that an ‘assisted purchase’ model could work? **We are not clear exactly what is meant by ‘assisted purchase’ but we would have thought the plain language meaning of the words describe exactly what is required – purchase of investments with help (advice). We do not see the difference from the Primary Advice model**

Q67: Are there any other models that you think could work? **See Q.16**

Q68: Is there an argument for more radical approaches, such as further compulsory savings (beyond the levels envisaged by Personal Accounts)? **Government has to decide how far it is going with the current means-tested benefits and whether they should be scaled down for those who have enough time ahead to become self-sufficient. Then one can consider what pressures need to be applied to ensure that they do save.**

Chapter 5 – Legal and Regulatory Considerations

Regulatory certainty

Q69: Can you provide material examples of how regulatory uncertainty has created a barrier for your firm? **No comment**

Q70: Do the proposals put forward in this DP go far enough to improving the position? If not, what other measures could we introduce?
No comment