

For the past 20 years the financial services industry has laboured under a prescriptive regime training and competence regime and yet investors still suffer from poor advice. The Retail Distribution Review has, with the overwhelming support of the industry, identified the need for improved professional standards and firms have begun the journey to rise to the occasion.

This desire for improvement is in pursuit of two objectives:-

1. To create the image in the public's mind of a financial adviser with the same level of probity and trust that is extended to other professions such as solicitors.
2. To, consequently, increase the use of financial advisers by members of the public to obtain much needed financial advice

### **Where we are now**

There are some clear and unequivocal lines drawn on who will set the standards, to whom they will apply and a benchmark for the qualifications.

- A new Professional Standards Board charged with setting a common framework for professional standards across all advice channels.
- Principle established to require the same competency levels for the same advice roles, whether independent or non-independent.
- For all investment advisers a benchmark qualification of at least QCA level four ( now known as QCF (Qualification and Credit framework) 4 or NQF (National Qualification Framework) 4 ), to be achieved by December 2012
- Possibly higher levels for designated specialists, but all individuals are encouraged to opt for higher levels to suit their specific needs.
- A code of conduct similar to the 7 Principles the Securities and Investment Institute (SII) operates for its members.

A communications exercise by the FSA is underway to explain and encourage continued debate before the final Consultation Paper with draft rules is issued in June 2009.

It is important to note a distinction in the application of the terms "professional standards" and "minimum professional standards". The former will be a framework which it proposed will cover all types of advisers. The latter may be different according to the nature and scope of the service being provided.

As well as debating the minimum standards the idea of raising the bar over time to even higher qualification levels is meeting with support although the comparative cost/benefit work has yet to be done.

At the time of writing the FSA are considering how best to structure and resource the Independent Professional Standards Board (IPSB), the Financial Services Skills Council (FSSC) is charged with developing the new standards. The traditional Institutes, the Chartered Insurance Institute (CII), IFS School of Finance (IFS) and the SII are, or, have, created Level 4 qualifications that will enable advisers to achieve the higher qualifications and are encouraging members to start now.

To encourage this early start the FSA has said that they are "committed to making this a 'no-regrets' move" for those that do whilst stating that the professionalism proposals need to be further developed and implemented.

## **The role of the FSSC**

The FSSC are charged with setting the new National Occupational Standards (NOS) which are based on a framework of units. Each unit describes the outcomes required for an activity and the knowledge skills and behaviours that underpin effective performance.

The FSSC develop these standards with project and steering groups which have representation from industry practitioners. They have plenty of practice in doing so and have created some 16 new standards ranging from Paraplanners to Debt Collections.

In a press release dated the 5<sup>th</sup> February the FSSC warned that qualifications being promoted by the institutes were not guaranteed to meet the FSA's new requirements from 2010 nor was there any guarantee of how different those new standards would be. In other words don't believe statements that guarantee a qualification will meet the new standards.

## **The role of the IPSB**

This new organisation will have both a standard setting and oversight of performance responsibility. The principle responsibilities for the IPSB, that would initially apply to independent advisers known as Professional Financial Advisers or PFAs, are:-

- Ensuring PFAs attain of the new higher minimum qualification
- Ensuring PFAs continue to develop their knowledge and skills throughout their career;
- PFAs subscribe to and conform with a Code of Ethics that should guide the relationship between the investor and the PFA;
- Achieving public awareness of the services offered by PFAs and the value of the independence and transparency provided
- Making clear to the public that the IPSB is there to act as the guardian of standards and that it will continue to drive standards upwards.

The FSA is working on the legal and framework and constituency of this proposed body.

## **The qualifications**

Readers may well have noticed, from recent press comment and member communications from the two main Institutes (CII and IFS) in the battle for supremacy on the qualifications front, that there is no consensus on the right approach and they are both silent on the topic of ethical standards.

There are two quite distinct approaches from the CII and IFS. The former has a range of papers at Level 4 where advisers can build the necessary units to achieve a Diploma in Financial Planning. There are no compulsory units which does allow an adviser to choose those topics where greater expertise is needed in their role. Knowledge is tested through two-hour written short answer examination.

The IFS has approached their Diploma for Financial Advisers from a different perspective where coursework contributes 30% of the weighting against 70% for the final examination which is be a written report based on a factfind that candidates will receive two weeks before the exam. The approach builds heavily on existing skills and knowledge and seeks to top up that base to the Level 4 standard.

The SII remain somewhat aloof from this argument and their Investment Advice Certificate, has been recognised as a level 4 qualification. They have stated that they understand that "those who hold this qualification will not need to take any further ones under the step-change". They have also had an interest in ethics since their creation and maintain an Ethics and Integrity Committee and members can study the "Grey Matters" papers which set out a situation with options for action that challenge the readers application of high principles.

## **Critical non qualification issues**

If the objectives of increasing professionalism are to met qualifications won't be enough and firms themselves will need to take responsibility for the important aspects that a badge of professionalism carries. While Institutes battle to capture their share of the market and firms seek the right path to start the journey to higher qualifications these difficult but fundamental issues could be missed.

These issues revolve around honesty and integrity, or, working hard to give the best advice to the customer regardless of self interest. Some of the questions we really need to answer are:-

- Is the proposition fair and fairly described to customers?
- Is the adviser skilled and self motivated enough to collect a full picture of the customers financial and personal circumstances?
- Where the best solution is not to invest can the adviser be trusted to make that recommendation?
- What are the penalties of behaving dishonestly?

A set of Principles and Code of Practice will only work if there is the will from the senior management of firms to put in place and take the lead in making the industry professional.

How to make this step change is what the arguments should be about.

Philippa Grocott  
Director, Retail Sector  
Corporate Training Partnerships Ltd  
01327 858292  
[philippagrocott@ctp.uk.com](mailto:philippagrocott@ctp.uk.com)

Published by Complinet March 2009