

# Only transparency can engender trust

## key points

- Customer-agreed remuneration policy to be adopted, with fees agreed at the outset
- Three categories of advisers proposed: professional financial planners, general financial advisers and primary advisers
- Primary advice service providers will need to understand the complexities of the benefits system to ensure they are not unwittingly creating another mis-selling scandal

Commission has become a dirty word so advisers should be upfront on charges, says the RDR finds



**Martin Walker**

If the FSA wants to understand why financial advisers are not held in the same esteem as other professionals, they do not have to look much further than how we are paid. One question posed is whether a basic advice regime, the primary advice service, would stimulate demand for access to simple products.

It is of great concern that the Chartered Insurance Institute is attempting

to monopolise the area of chartered financial planners and allow only those prepared to pay exam fees and re-sit exams to use the term chartered.

When asked to comment on the potential impact of the retail distribution review, an image always appears in my head of an FSA meeting where the attendees are asked to brainstorm everything that is wrong with our industry. They come up with a single word – commission.

A little harsh maybe and the RDR does indeed attempt to cover more than the potential problem of commission bias, but can anyone seriously argue that commission-only advisers do not suffer from product bias? The popularity of single-premium bonds with an

initial commission of 6 per cent or more is evidence of that.

Of course there are some hard working, honest, professional advisers who continue to work on a commission-only basis but even they must admit that this model is flawed and outdated and the public's perception is that the temptation for bias is always present.

## Proposals

What the RDR proposes is that we adopt a customer-agreed remuneration policy, which means being upfront about how much the advice will cost. Simple really – agree the service to be provided, calculate the cost of the advice, including a level of profit and agree a fee upfront. If that advice

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involves a product that offers commission then accepting that commission in lieu of the fee is perfectly acceptable, provided excess commission is repaid to the client or added to the plan.

Everyone knows where they stand, the fee paid/commission received is the same whether a stakeholder pension or a Sipp is used to provide the solution.

## Improvement

This is a massive improvement on previous attempts to tackle this issue – commission disclosure, Menu and Instrument Description Document – and does not preclude the payment of commission, merely how it is used.

The RDR also attempts to improve the public's understanding of our roles

and proposes three categories of financial adviser – the professional financial planner, general financial adviser and primary advice service.

One question posed is whether a basic advice regime, the primary advice service, will stimulate demand for access to simple products. In theory this is to be encouraged, for Britain seems to have forgotten the importance of saving for the future and have adopted the mantra of living for today.

However, as anyone who has kept up-to-date with the debate around personal accounts and automatic enrolment will understand, someone who has the prospect of receiving means-tested benefits has no guarantee that by saving £1 they will be at least £1 better off.

## Benefits

Primary advice service providers will, therefore, need to understand the complexities of the benefits system and possess the ability to predict changes to legislation if they are to ensure they are not unwittingly creating another 'mis-selling' scandal.

Another interesting area is the emergence of the importance of exams, especially for anyone who hopes to call themselves a professional financial planner. This area seems to concern most planners and adviser, especially as they are not obliged to hold qualifications that confirm their ability to undertake their respective roles.

Academic qualifications are required, but no one should claim to be to be a professional planner without being able to provide evidence that demonstrates their ability to put theory into practice.

It is, therefore, of great concern that the CII is attempting to monopolise this area and only allow the use of the word chartered by those who are prepared to sit exams in topics they are already well qualified in to gain more points.

For example, I, in common with many others, decided to take the Investment Management Certificate offered by the Securities and Investment Institute, to improve and demonstrate my understanding of investment issues.

This earns me a paltry 20 credits towards chartered status compared

with 30 credits for their own, less rigorous, AF4 Investment Planning qualification. In my opinion, the Institute of Financial Planning needs to do more to promote the certified financial planner licence as the best evidence of academic qualifications and the ability to put theory into practice.

## Independence

A further concern is that it has been suggested that the use of the word independent could be restricted to those whose remuneration is removed from 'potential provider bias' and not reflect whether the adviser is able to choose products and funds from the whole of market.

While I have never felt that a title would help me to gain the trust of a client, I am concerned that firms could market themselves as independent, even though they can offer only a limited range of funds – the multi-tied high-street bank adviser springs to mind. This is not acceptable.

The term independent is understood by the public to mean not being tied to

one company. Of course, as in any profession, there are good and bad independent advisers but we must not change how the term can be used, as it would lead to the public being deceived. Perhaps the FSA should consider the complaints record of tied advisers before they decide to provide them with a marketing advantage.

Overall, I applaud the intentions of the RDR and would support any move in favour of transparency regarding fees and commissions.

However, potential changes to the definition of independence, a misplaced assumption that academic qualifications alone would improve the quality of advice and less regulated, less experienced advisers being let loose on, possibly, the most financially vulnerable members of our community, need to be rethought.

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