

RDR: Building a Successful Future: An ABI

Conference

Friday 16th January

Stephen Haddrill, Director General, ABI:

Keeping Customers at the heart of everything we do

Welcome and thank you for attending this one-day conference on the RDR.

It's a month since the FSA announced its plans. We now have until the end of June to work with the FSA on its proposals.

Consumers' need for advice and guidance in preparing for their financial futures has never been greater. Our State of the Nation's Saving survey shows that over half

the working population (nearly 13 million people) are not saving enough for their retirement. The FSA's Financial Capability Research shows that very few consumers are confident about making even the most basic financial choices.

Nevertheless we have willing customers: our research carried shows that many people in Britain want to save more for the future. Almost half of British consumers intended to make it a New Year's resolution to save more, and over half said the current economic climate made it more likely that they would save more.

But we cannot help people to save unless they engage with our industry. We must provide an environment in which people trust our industry, advisers or providers, to give them great service.

The next stages of reform for retail distribution are critical to achieve this. In working out the operational detail we must not forget that these reforms are about helping more consumers gain access to and justified confidence in financial services. Without the confidence and trust of consumers, we cannot build sustainable, innovative and profitable businesses. We need to seize the opportunity provided by the RDR to:

- **Increase confidence in the market**
- **Increase access to the market, and so**
- **Increase saving**

And in all our work we must see the world as the customer sees it. The consumer only sees one financial services industry, so whatever our position in the

financial services, whether we are providers, advisers, or regulators, we must focus on the end goal: a consumer with the confidence and trust to build a relationship with our industry for the whole of their life.

So what's to be done.

First professionalism.

The FSA has agreed that all investment advisers must be qualified to a higher minimum level. Must be subject to CPD standards. And must abide by a code of ethics and standards of behaviour, overseen by a new Professional Standards Board with real sanctions. How is this to be delivered?

- We need to agree on a syllabus. This must be comprehensive whether a consumer wants to discuss issues tax or pensions, they must have the confidence that the advice they get and the adviser who gives it is well qualified to meet their needs.
- We also need to promote confidence in the qualifications we develop. Qualifications provided by all professional bodies need to be of the same standard and cover the same syllabus. And having set such comparable standards we need to communicate what we have achieved.
- The Professional Standards Board then needs to work with FSA and the FOS, to ensure professional qualifications; behaviour and ethics are robust,

consistent and effectively monitored. Its members must understand the industry. And they must be willing and able to hold its members to account. It is in all of our interests, whether we work in the industry or are consumers, that those who fail to meet the standards of professionalism or respect the ethics and values, are rooted out.

In achieving this we must avoid regulatory double-counting. There must be absolute clarity of the roles of the FSA, and the new Board. Consumers need to know where to go if they see a breach of the standards.

Wrongdoing must not fall between the cracks.

Unnecessary costs must be avoided.

During today we need to consider

- What should the PSB's role include?

- How does the new body affect other bodies

How should the PSB be funded?

The FSA has decided that it will lead the work and house the Board in the first instance. The question of its eventual home is still undecided. That is an important issue lets not hold up progress in getting the Board up and running while we debate that question. We need a home that will be expert, fair and strong. But fundamental.

The FSA has also agreed the development of ‘Adviser Charging’, a new **remuneration model** to reduce actual and perceived bias in the system. This is aligning the interests of financial advisers and customers, and improving public trust and confidence.

‘Adviser Charging’. Should assure consumers that advice is free from provider influence. Its success will depend on whether customers are in a position to understand and agree the charge and service with the adviser.

Our consumer research shows that the majority of consumers found the proposed model easy to understand, and valued the transparency of a separate advice and product charge.

Our research, also showed that the new approach is likely to increase demand for financial advice and products, that more customers are likely to follow the recommendations of their advisers: and that some would visit their adviser more often.

Adviser Charging will, however, need a significant investment of resources from both financial advisers and product providers. It will require more flexible systems that allow different charges for advice to be applied. It will require and new disclosures to consumers of the consequences of their actions.

So we have to get it right first time. And there are some tricky questions to discuss today.

- How should Adviser Charging interact with legacy products? Consumers need to be clear whether, and if so, how, a new system affects their existing charges.

- should disclosure be develop .Any new system should be meaningful as well as straightforward.

Difficult as these issues we are we need to make rapid progress. And that will require the FSA's help. Its commitment to, and regulatory support for, the new system will both be vital in facilitating the necessary investment by providers and advisers.

In my opening remarks I talked about better access to advice as a key objective.

We are pleased that the FSA has recognised that regulation needs to support the development of new channels. The new market should cater to all consumers. Reform should benefit both existing market participants and also those currently not engaged in financial services.

This is necessary if more consumers are to get affordable access to products and services that meet a more complete range of their needs. But with more choice there is more need for consumers to understand the different types of financial advice available to them.

There is a need for clear language and labelling. Our research shows that consumers do not distinguish between advice, information and guidance; they do not think they are mutually exclusive terms. They are our words not theirs. We therefore welcome the FSA's commitment to conducting careful and detailed consumer research before committing to new service labels.

The RDR provides an opportunity to benefit generations of consumers by helping them to make adequate provision for their financial needs. It can also play a

vital role in reversing the savings and protection gap in Britain. The next six months in particular are an important chance for long-term reform. I hope we make the most of today's opportunity to take forward the programme for reform. This room represents all parts of the distribution chain, so I hope we will have a well-rounded and complete discussion today that takes in the perspectives of all involved.

ENDS