



## Letter to the editor

Dear Sir,

I write following the publication of the RDR Interim Report (April 08) by the FSA.

As a child I grew up listening to stories which usually started "Once upon a time", had Good versus Evil and in the end everybody lived happily ever after. As I got older I soon came to realise that the world isn't really like that and most situations involve a complex interaction of numerous factors.

So I read the RDR Interim Report with interest. Are we seriously meant to believe that Advice & Sales is a sufficient mechanism to structure such a complex system as retail distribution in financial services? The issue seems to be that the RDR talks about customers, where the emphasis is on customer-catching and transactions, whereas a professional Financial Adviser focuses on clients where the emphasis is on developing and enhancing relationships.

I do accept that putting such a simple grid over this market will make the Regulators job easier and, given recent high profile failings in Financial Services generally, why this would be appealing to them. But, is it really in the best interest of the customers?

In my experience the vast majority of clients are not passive in the process of seeking a Financial Adviser they can trust and as access to information improves through the development of technology this process will get easier. Some will rely on the perceived safety of a recognised brand, i.e. their Bank, whereas others will take up personal recommendations to find an adviser. Many will choose the services of a recommended local adviser because they get personal attention, are likely to deal with the same person on an ongoing basis and they know they can get back in touch easily, without the need to stand in a long queue or deal with a remote Call Centre. The choice they ultimately make is the one they feel most comfortable with, all the elements taken individually may not be ideal but as the old saying goes "the whole is greater than the sum of its parts".

Without doubt initiatives like raising professional standards, improving the transparency of how much a client is paying for the relationship with their Financial Adviser, and understanding the basis of that relationship should be fully supported.

However, the question I would ask is that as the basic foundation of good financial planning is the same for every suitably qualified and experienced Financial Adviser, why should the distribution channel they choose to represent make any difference to whether they are capable of giving appropriate advice? The selection of the product will differ dependent on the status of the adviser but simple disclosure will ensure the client understands the advantages and disadvantages of the particular offering.

I am also concerned that as I meet small to medium sized IFA's and talk to them about their future, it is clear there are a significant number who feel uncertain as to their survival. They are concerned that they don't have the necessary financial resources to implement the required systems & controls, to demonstrate to the Regulator, that they treat their customers fairly. This is despite the fact that they have highly satisfied clients, many years of experience, and are well qualified. Potentially losing a significant proportion of this layer of retail distribution can only be to the client's detriment.

Accepting the need for professional standards, transparency, well managed client relationships and that clients need the freedom to choose the Financial Adviser that is right for them, then we get to the two most emotive questions: how much the Adviser is paid and the mechanism for this. In other areas of society people choose to pay more for quality in the product, the advice or the service they get, why should Financial Services be any different? The mechanism is the long debated issue, fee or commission? In reality are these any different? The client is paying in either scenario! The most important factor must be they know how much is involved so they can determine if it reflects fair value. If the issue is that part of a commission payment usually involves a payment in advance, for future services, then consideration should be given to introducing a longer claw-back period for investment business. A sliding scale over say 3-5 years would ensure the client got the service they were expecting.

To date the vast majority of industry comment on the RDR and TCF has been led by either the Providers or the Networks. What concerns me the most is the relatively modest response on behalf of the IFA who value their independence in a business sense and if not careful could end up finding themselves "persona non grata" in the Financial Services Community. This surely would be a great shame given the number of clients who currently trust them for financial advice.

Yours faithfully

David Cox, FIA

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#### **NOTES**

Suuqea is a Professional Practice offering bespoke consultancy services to the financial services sector.

#### **Profile of David Cox**

David began his financial services career as a trainee actuary with a major life office and, once qualified as an actuary, joined the senior management team of a large friendly society. Following promotion to Chief Executive, he steered the society through a very challenging period which included the abolition of life assurance premium relief, the stock exchange market crash of 1987, the introduction of the Financial Services Act in 1988 and the launch of personal pensions.

In late 1989, David became Managing Director of a large firm of independent financial advisers (a wholly owned subsidiary of a major national clearing bank) and led that business through a significant period of growth, culminating in it being ranked in the top 20 IFA firms in the UK, with over 100 advisers. Significant challenges to be faced during this period included the introduction of commission disclosure and stakeholder products.

Latterly, David has been heavily involved in the significant growth of what has now become a leading services provider that offers compliance support to the IFA community.

During his career, David has held all the key FSA Control Functions that apply to the IFAs of today, namely CF1, 3, 8 and 10, and is therefore totally familiar with the duties and responsibilities facing the owners of such businesses.