IFA
Defence Union

Michael Johnson
Senior Research Adviser
Economic Competitiveness Policy Group

18th October 2006

Dear Mr Johnson

Re: Strangulation by regulation

Further to our meeting on 30th August 2006. Please find attached report entitled *'the impact of regulation upon the retail financial services sector"*.

Although we do appreciate that this may not meet your need for a palatable solution it is a fact that regulatory reaction to perceived problems discovered after the horse has bolted is a major problem for UK PLC, this is made worse by regulatory interference with products and markets over the last two decades.

We agree that wholesale and retail regulation should be quite separate because as the saying goes 'once size does not fit all'.

We also agree that '*caveat emptor'* should be in play within retail financial services.

The 'local' IFA is essential in retail financial services, without this service the only sources of advice will be tied or multi-tied banks selling, at most, five shades of grey and one way or another being remunerated other than by fees. Two decades ago there were at least six home service life offices in every county but now they have all gone and two generations are without a basic grasp of the need to save for that rainy day. We read a constant stream of stories telling everyone that IFAs are only interested in the wealthy when this is not so because a struggling student or businessman could one day be much better off with some coaching from a professional IFA, this would provide a boost the worth of UK PLC if it was actively encouraged. With this in mind I would recommend a review of the role of IFAs in the community and their positive impact upon the UK as a whole.

It is a fact that IFAs are a resilient and cost effective distribution model for long-term savings but when an IFA goes out of business many clients struggle to find someone else they trust to guide them. With this in mind we would recommend a review of the system which would allow continuity of large client banks without the age-old excuses of 'confidentiality' or 'data protection' as used by all the life companies, insurers, banks and other providers of financial services products when they feel the need to cling on to their 'orphans'.

Unfortunately there are still a few IFAs who try to be all things to all men but lack the skills to deal with every situation presented to them, although some trade bodies imply that having a simple qualification meets the requirements of all clients we would argue that certain areas need specialist knowledge, other professions refer certain types of business to others who have studied and developed an expertise in that area, so should IFAs but the regulatory regime coupled with insurance problems and a lack of trust makes it difficult to find a 'partner', with this in mind we would recommend a review of the way IFAs operate within the UK market and tweak various rules and regulations to make it easier for them to work with specialists of all disciplines whether they are tied to one company or not.

The IFA Defence Union, Preswylfa, Dyffryn Ardudwy Gwynedd LL44 2EH

With regard to the system of awarding compensation to those who have genuinely lost money through being sold truly unsuitable products we propose an insurance fund rather than an Ombudsman and a Compensation Scheme as we have now, the current system is disjointed and it is flawed because it is too informal and prone to errors which distort the opinions of the client and the adviser alike. We are of the belief that such a fund could be funded by a combination of the redirection of premiums paid for Professional Indemnity Insurance and a product levy, at present the PI insurance market can choose, on an annual basis, what and when it will insure, what the premiums will be and what excess is required, this is unacceptable because it doesn'tmeet the needs of the client, the regulator or the IFA, particularly the retired IFA. The product levy would cover some of the losses caused by manufacturing defects.

In our opinion it is only the appropriately qualified who are bound by natural justice who should run a compensation fund, they should take into account any third party liability and client contributory negligence to loss and calculate any redress on ALL the facts and evidence to hand including changes to tax regimes, savings made and unforeseeable fluctuations in performance.

In the current climate many small IFAs feel they have 'nothing to sell' to the ordinary man in the street who wants to put a little money aside because of the constant tinkering with taxation and means tested benefits, it is also of concern that the last twenty years have seen numerous changes to tax efficient products, Personal Pensions, PEPs, TESSAs and ISAs are possible areas of complaint because what went in might cause problems in future when it eventually comes out the other end. IFAs and their clients need a period of stability combined with fewer political footballs and no moving of goalposts.

We agree that many problems have been uncovered at the retail end of the financial services industry but many of them were obvious to most of us at the time whereas the regulator allowed it to happen for many years and in some cases actually caused the problems in the first place.

We would ask any future government to think long and hard about a radical reform of the FSA, it hasn't been working since 1985 when it was called the Securities and Investments Board and it certainly is not working today simply because of the culture within, it has conflicts of interest because it must do the bidding of the political will and pacify consumerists while protecting its own rear end and all this at great cost to the financial services industry and UK PLC without any real benefit to IFA clients.

If there were far fewer yet more effective rules and regulations, no unwarranted interference and a modicum of trust the long-term savings industry would have a chance of succeeding where all else has failed.

There is also the problem of providing a 'basic foundation' of saving for retirement among the masses that we would like to discuss, it would include the self-employed and those who care for family members, we have a radical solution that the large institutions may not like very much but someone must do something far more fundamental than tweak what has already been tried before and it should be done sooner rather than later, time is not on our side.

Finally, on the subject of commission vs. fees we can only point out that the method of remuneration is a matter for the adults who are party to the advice process to decide, the way someone pays for advice is no guarantee of quality, as complainants will testify.

Yours sincerely

Evan Owen

The IFA Defence Union, Preswylfa, Dyffryn Ardudwy Gwynedd LL44 2EH