

Professional standards and the RDR

Winston Churchill clearly had other things on his mind when he said: ‘...this is not the end, but it is perhaps the end of the beginning....’ But it applies equally well to where we are currently with the Retail Distribution Review (RDR).

The Feedback Statement that was published in November 2008 outlines the FSA’s thinking on how it can address some of what it calls the ‘systematic imperfections’ within retail financial services. A Consultation Paper in June 2009 and a transitional period up to 31st December 2012 will surely mean that some of the detail is still bound to evolve. Despite this, we are clearer about some key elements – particularly with professional standards - and we can and should start to plan for these now. In this article, I’ll look at these proposals and the potential implications for firms.

Exams

Clearly one of the key points arising from the Feedback Statement is that all those who provide advice (IFAs and tied/multi-tied advisers) will need to meet the same professional standards by December 2012. The standard set is at QCA level 4, i.e. at the level of the current CII Diploma exam or IFS Diploma for Financial Advisers.

A new qualification/syllabus will be available in 2010, probably developed by Financial Services Skills Council (FSSC), which new entrants will be expected to complete. In the meanwhile, the FSA is committed to a ‘no regret’ policy whereby people who have qualifications such as AFPC (which is not regarded as a level 4 qualification) or who have an existing level 4 qualification could meet the requirement and address any gaps via CPD, rather than possibly having to sit a new exam.

There is some logic to ensuring that everyone who provides advice must be qualified to the same level. This will, however, be a major challenge particularly for the current tied/multi-tied sectors and all those close to retirement. It also creates an interesting challenge for some businesses whose model is based on simple products and focussed advice. Advisers who are qualified at level 4, but unable to offer advice on either a wider range of products or complexity of situations, don’t fit comfortably into this model.

It is possible for firms to get their in-house training and testing arrangements accredited where they meet CII standards. Although this is labour intensive on hard-pressed training departments, this might be worth considering as it will enable material to be more tailored to the relevant products and, let’s be honest, help with retaining the people you’ve worked so hard to get more qualified.

The CII currently dominates the Level 4 qualification market so let me move on to look at the potential issues of getting through perhaps four Diploma exams by 2012.

Even if we ignore the pressure of working to earn a living in a challenging environment, many advisers who need to achieve four exams will need to start these exams sooner rather than later. Anyone who delays starting level 4 exams until 2010 will be setting themselves a demanding schedule.

Our research shows that the average exam pass mark for the key CII Diploma subjects is only 47.89% and there are some sizable differences between subjects.

Subject	2006		2007		Average
	April	October	April	October	
J01	63.29%	54.34%	55.93%	52.09%	56.41%
J02	38.38%	47.97%	56.02%	48.18%	47.64%
J04	27.69%	38.84%	49.83%	59.50%	43.97%
J05	40.20%	45.85%	69.53%	53.05%	52.16%
J06	34.24%	34.24%	43.39%	43.05%	38.73%
J07	58.73%	44.44%	44.30%	46.24%	48.43%
			Overall		47.89%

Source: CII, figures compiled by Patterson Sales Training

Performance in exams will usually be driven by how much revision is completed and how effective this is. The CII pass marks certainly suggest that candidates need to prepare for them in a more effective way. Examiners' reports, for example, typically refer to candidates not having enough knowledge over the breadth of the subject syllabus.

Many firms are increasingly looking to encourage a blended approach to exam study. There is growing evidence to show that by using a variety of revision methods such as audio material, study groups, key fact cards and web-based knowledge testing, these will help raise pass marks – and help candidates make a better use of their time. Going forward, there has to be more than just the typical two day course when people turn up with the cellophane still on the study text.

CPD

New minimum standards for CPD are to be set and enforced by the Professional Standards Board (PSB). Under FSA T&C rules and guidance, the requirement is to maintain competence rather than undertake CPD (either a set amount or type). The RDR is clearly indicating that a more prescriptive approach is seen as being desirable. There is an element of déjà vu here – many firms have still retained this requirement from previous T&C regimes so perhaps the focus needs to be on how it can be even smarter. We'll have to wait to see what the PSB thinks about this but in the interim, perhaps we can move towards:

- ❖ More structured CPD programmes
- ❖ Clear testing to demonstrate currency of knowledge
- ❖ More relevant CPD, e.g. periodic knowledge health checks based on interviews or discussions of client cases.

Skills

In talking about professionalism, it is great to see the Feedback report talking about enhanced adviser skills. It would have been quite wrong, in my opinion, for the report to equate higher professional standards purely with getting higher level exams. But this poses two key challenges for businesses:

1. to identify just what better professional skills look like, and
2. ensure that these don't get overlooked in the headlong chase to complete exams.

I'll focus here on what better professional skills look like. This depends on how the adviser currently operates. The following table is intended to illustrate some of the potential differences:

	Value Communicator	Value Adder
What they do	Value (or why the client buys) is largely inherent in the product or service, i.e. quick, cheaper, more flexible. The adviser's role is largely to communicate this.	Value (or why the client buys) is generated by the adviser. The adviser is the 'added value'.
Trust who?	Trust the product or brand	Trust the adviser
Nature of relationship	Transactional	Relationship-based
Some of the skills they need	<ul style="list-style-type: none"> ❖ Identify and qualify specific need ❖ Sell the benefits ❖ Handle objections ❖ Explain and communicate clearly 	<ul style="list-style-type: none"> ❖ Identify and analysis of a wide range of issues ❖ Consultancy style – probing skills ❖ Customising solutions ❖ Building effective relationships

The RDR also makes it clear that disclosure requirements will need to change. For example, 'adviser charging' will mean that the cost of advice is more explicit than ever before. Advisers will need the skills and confidence to position this. This will be an increasingly uncomfortable place for the Value Communicator where cost is an important element.

This suggests that the skills advisers need going forward will be shaped by two key drivers:

- ❖ RDR – this will require different skills and a different emphasis, and
- ❖ increasingly demanding clients - the advice process will need to clearly create value (Value Adder) and this will challenge both the processes used and the skills of some existing advisers.

On-job-assessment

The RDR has confirmed that 'grandfathering' will not be permitted. However, proposals in the Interim Report to consider on-the-job assessment (as an alternative to the exam route) still remains open to discussion.

Because of this, I'm a little surprised that on-job-assessments aren't receiving more potential attention. I was involved with the CII in developing a process to accredit against the ISO22222 international personal financial planning standards (<http://www.cii.co.uk/pages/as/ISO22222.aspx>). These standards focus on work-based criteria and provide a framework and robust assessment methodology that could readily be modified to demonstrate on-job-assessments for RDR.

Independent Professional Standards Board

The RDR is proposing a Professional Standards Board to monitor the activities of individuals. This will initially be run by the FSA but may subsequently become an independent board.

Currently, the FSA monitors the activities of regulated firms and certain individuals through the approved person's regime. By setting up the Professional Standards Board, ultimately the FSA will presumably be left monitoring the activity of firms alone.

This replicates the structure adopted in the accountancy profession and would provide a consistent and overarching standard for the industry. The knack will be to do so without adding duplication and costs to the industry.

T&C Procedures

With some notable exceptions, I'm not a great fan of most of the T&C schemes I see. I have two main gripes. First, most of them are based on a variation of a 10 year old theme from a previous regulator – this doesn't show much willingness to embrace change, include best practice or adopt the opportunities presented by a much-changed T&C regime. Secondly, T&C stands for training and competence, not training and compliance. This means that schemes that act as a monitoring tool will be unsuitable for developing the skills required by both the business and envisaged by the RDR.

RDR is about raising professional standards and it is clear* that T&C will be expected to drive this. For many firms, one of the key challenges will be to re-align their processes (including T&C) to ensure these are fit for purpose.

Conclusion

So there we have it. I doubt whether the next four years will be a terribly relaxing time for the training and compliance worlds! RDR is intended to raise professional standards and it is clear that many people within the industry embrace this aim. It is also clear that the costs associated with the advice process will increase. Businesses could just accept this as a hit on the bottom line or pass it on to clients. As neither of these options sounds very attractive to me, the only other option is to revisit the business model and ensure that costs are recouped by having more effective advisers in the future. The challenge now for training and compliance professionals is to shape how this should happen.

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* (RDR, page 48)