

HM Treasury & FCA – FINANCIAL ADVICE MARKET REVIEW

Chartered Banker Institute: Response to October 2015 Call for Input

Background

1. The Chartered Banker Institute (“the Institute”) is the oldest professional banking institute in the world. The Institute was founded in 1875, operates in all UK nations, and has a significant and growing international presence. The Institute has driven an agenda of ethical professionalism throughout its existence: promoting professional standards for bankers, providing professional qualifications for retail, commercial and private bankers in the UK and overseas, and offering professional membership to qualified individuals.
2. The Institute received Royal Charters of incorporation in 1976 and 1991. In 2000, approval was received from the Privy Council to award the “Chartered Banker” professional designation to individuals meeting the Institute’s highest standards and qualification requirements for ethical, professional and technical competence. The Chartered Banker Institute is the only body able to award this title.
3. Post qualification, all Chartered Bankers and the great majority of the Institute’s members must satisfy the Institute’s Continuing Professional Development (CPD) requirements, including mandatory annual ethics refresher training, to continue to use the “Chartered Banker” designation.
4. In addition to the flagship Chartered Banker qualification, the Institute offers a wide range of professional banking qualifications and also “regulated advice” qualifications, specifically for those undertaking mortgage and financial advice. The Institute is also an FCA Accredited Body and is empowered to issue annual Statements of Professional Standing to individuals that have met qualification requirements, undertake continuing professional development and comply with the Institute’s Code of Professional Conduct.
5. The Institute currently has over 25,000 members, with significant growth in the past 5 years. In addition, over the same time period, a further 25,000 individuals have participated in a training programme delivered by an employer, university, college or other training provider, accredited by the Institute against our professional and qualifications standards, and providing a pathway to achieving a professional qualification awarded by the Institute.

See www.charteredbanker.com for more information on the Institute and its activities.

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6. In 2008, the Institute began work leading to the launch of the Chartered Banker Professional Standards Board (CB:PSB) in October 2011, chaired by Lady Susan Rice. The CB:PSB is a unique initiative, led by 8 leading UK banks¹ and the Chartered Banker Institute, to enhance and sustain professional and ethical standards in banking in the UK. The CB:PSB develops and, through its member banks, implements professional standards (standards of conduct and expertise) for individual bankers which will contribute to the restoration of public trust and confidence and promote a culture of professionalism in the banking industry.
7. In October 2011, the CB:PSB published the Chartered Banker Code of Professional Conduct, to which all member banks subscribe, and which encompasses approximately 75% of the UK banking workforce. In July 2012, the CB:PSB launched its first standard, the Foundation Standard for Professional Bankers (the Foundation Standard). Over 185,000 bankers, including 118,000 in the UK, achieved the Foundation Standard in 2014. CB:PSB member firms have committed that all UK customer-facing staff will have met the Foundation Standard by December 2015. The CB:PSB launched its second standard, the Leadership Standard, in early 2015 and this is currently being implemented by CB:PSB member firms.
8. The CB:PSB works closely with regulators, and also with the emerging Banking Standards Board (BSB). The BSB's mission is the development, promotion and encouragement of professional high professional standards in the banking industry, with a focus on institutions. The CB:PSB focuses on professional standards for individuals.

See www.cbpsb.org for more information on the CB:PSB and its professional standards.

RESPONSES TO SPECIFIC AREAS

1. We have commented only on those parts of HMT's and FCA's FAMR: Call for Input which fall within the Institute's expertise and on which we are expected by our members to comment. In general, as a professional body, we believe that professional advice – whether basic, simplified or fully independent financial advice - should be provided by suitably qualified individuals committed to high standards of customer-focused, ethical professionalism. This does not mean, however, that all individuals qualified to provide advice should, necessarily hold a qualification at the same educational level.

Q2. Do you have any thoughts on how different forms of financial advice could be categorised and described?

Currently, basic advice and regulated advice are provided and simplified advice would seem to sit between the two of these. We don't believe customers necessarily care how the different types of advice are described, as long as they receive high quality professional financial advice, focused on their needs and best interests, and

¹ Barclays, Clydesdale, HSBC, Lloyds Banking Group, Santander, RBS, Tesco Bank and Virgin Money.

can have confidence and trust in the individuals, institutions and industry offering this. A distinction between fully independent (i.e. whole-market) and tied advice remains helpful, however. In our view, all financial advice below the fully independent level should be given by suitably qualified professionals, and should be termed professional financial advice.

It is difficult to determine if the majority of consumers currently understand the difference between generic financial advice and specific advice provided by regulated advisers, and we would welcome more research into this. We feel, however, that whilst increasing individuals' financial capability is a worthy goal, we should not inadvertently weaken demand for individually-tailored professional financial advice by substituting higher-level, generic advice.

Q3. What comments do you have on consumer demand for professional financial advice?

Research from Citizens Advice recognises three potential types of advice gap.

- 5.4 million people want financial advice but are unwilling to pay the prevailing market rate;
- 14.5 million people want advice but cannot afford to pay for it;
- 10 million people who are unaware advice exists, or where to get it.

We believe that many of the 5.4 million people who currently are unwilling to pay for independent advice might be more willing to pay for simplified advice provided by banks, building societies, credit unions and others, providing the costs of this were lower than the current costs of advice, and/or costs were not incurred upfront, and if the benefits of receiving such advice are clearly communicated. Similarly, the 14.5 million who want advice but currently cannot afford to pay for it could be well-served if advice were provided without upfront costs, with such advice funded by the sale of appropriate products. Any commission or other fees would have to be made simple, transparent and very clearly explained. Finally, the 10 million people who are unaware advice exists or where to get it will nevertheless be users of financial services products and will have a need for savings, insurance, pensions and investment advice. Both policy makers and the banking sectors have complementary roles to play in encouraging greater engagement between consumers and the finance sector.

This highlights the fact there is no single solution to ensuring affordable help for all. The industry's role should be to offer high quality, professional financial advice, focused on customers' needs, priorities and best interests, to all segments – if customers and potential customers can have confidence and trust that they will be truly better off, then they may be more convinced that obtaining advice – whether basic, simplified or other – is a worthwhile investment in terms of time and cost.

Q4. Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?

The Citizens Advice research cited above shows where the demand is but the reasons why 5.4 million people are unwilling to pay the current level of fees are because of (a) high upfront fees of £250 upwards, (b) uncertainty and lack of confidence given the long-term, and potentially risky nature of financial products and services, and (c) a general lack of trust in the financial services industry.

It appears to us that consumers would be willing to receive advice from sources other than the current regulated advice community, as the NMG Consulting Report shows. It states that individuals buying a mortgage reported consulting professional financial advisers (39%), speaking to bank/building society branch staff (31%), consulting price comparison websites (26%), reading material on product provider websites (19%), and speaking to providers over the phone (19%), as well as several other sources. This is where banks, building societies, credit unions and other providers may all have something to offer consumers when they are looking to make major life decisions, such as mortgage lending, pensions, opening savings accounts, Etc.

Similarly, we believe that developing a much wider cadre of high quality professional advisors, suitably qualified and providing advice, focused on customers' needs and best interests will help to build customers' confidence and trust and may convince a much wider range of individuals to obtain advice – whether basic, simplified or other.

Q5. Do you have any comments or evidence on the financial needs for which consumers may seek advice?

Page 10 - under 'more complex' – we propose the inclusion of:

- long term care; and
- savings for your own or your child's education.

Q9. Do you have any comments or evidence on why consumers do not seek advice?

This is because as mentioned above, from a demand perspective, consumers believe advice at present is too expensive and don't see the value of it. The advice is also often complex and the nature of the products and services are often intangible and longer-term, meaning that any benefits won't be seen for many years, but significant costs are incurred upfront. Additionally, many financial products such as life and health insurance, and retirement planning, require consumers to recognise and make decisions regarding potentially frightening and complex issues. All of these factors makes the adviser's role a challenging one, requiring considerable technical and professional knowledge, tact and diplomacy, and an ethical, customer-focused approach – and make the provision of independent advice expensive (although not when compared to other forms of professional advice and consultancy, e.g. accountancy, law, tax, private medical care, etc.). From a supply perspective, financial advice presents challenges to banks, building societies and credit unions in ensuring there is sufficient return on investment to cover the cost of training and supervision of individuals in such a challenging, but societally valuable, role. This is especially difficult for smaller institutions

There is also the problem of a lack of supply of advice for consumers. For example, advice is not widely available in bank, building society and credit union branches, or even over the phone.

In addition to this, there is a lack of trust held by consumers in the advice they are given. To overcome this problem, customers need to be confident that there are consistently high standards of customer-focused, ethical professionalism being displayed by advisers and that advisers have developed, demonstrated and continue to maintain an appropriate level of professional competence.

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In our view, the same, consistently high standards of customer-focused, ethical professionalism must apply whether advice is basic, simplified or fully independent – there must be no compromises made in the standard of professionalism required, or this will undermine consumer confidence and trust. We do not believe, however, that individuals providing simplified advice would necessarily require to be qualified to the same level (QCF Level 4) as is currently the case for regulated financial advice, particularly when technology can be utilised to support the advice process. The use of filtered decision trees across key areas of consumer concern – retirement planning, financial protection, savings and investments, with access to a suitably qualified and experienced adviser to help understand the “what ifs” offers potential for a consumer-oriented, cost effective service that is sustainable in business terms for a wide range of providers. Indeed, as the use of price comparison websites illustrates to a large extent, technology of this nature can be consumer-led which serves the dual purpose of increasing consumer understanding and also allowing basic fact-checking and priority identification to be undertaken prior to seeking advice.

The Chartered Banker Institute has developed, together with industry representatives, a proposed set of professional pathways and qualifications (see Appendix 1), which, if implemented, would help to secure consumer confidence and trust in individuals providing simplified advice, maintaining professional standards across the whole advice sector whilst being cost-effective for banks, building societies and credit unions.

Q10. Do you have any information about the supply of financial advice that we should take into account in our review?

Q11. Do you have any comments or evidence about the recent shift away from sales based on professional advice, and the reasons for this shift?

Our response to these two questions is linked, in that the Retail Distribution Review (RDR) made it uneconomic for banks, building societies and others to offer full-blown independent financial advice and as a result, no high street banks or building societies currently offer such advice, beyond catering to the needs of relatively small numbers of high net-worth clients. We have commented on this in more detail above.

Q14. Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models? We would argue that from a customers' point of view, that the current level of fees charged by financial advisers provide a barrier to customers seeking advice, especially for the 5.4 million people cited above who want advice but are unwilling to pay the prevailing market rate. We believe that in terms of providing simplified advice, a transparent, commission-based remuneration model, is preferable – provided this is combined with high standards of customer-focused, ethical professionalism to ensure that any advice is always in the customer's best interests, and not swayed by adviser remuneration.

Q16. Do you have any comments on the barriers faced by firms providing advice?

We believe this is very much associated with the problem of a lack of human resources. There are a large number of bank, building society and (increasingly)

credit union staff holding professional banking qualifications, but without specific financial advice qualifications they are not currently permitted to provide financial advice. The requirements of current investment advice qualifications go largely beyond meeting the needs of the majority of bank and building society consumers, whose priorities are mostly oriented towards finding the most appropriate and affordable balance between financial protection, retirement planning, savings and investments, and are more focused on the needs of a smaller group of higher-net worth individuals. If they wished to offer investment advice, banks, building societies and credit unions are, required to employ highly qualified financial advisers and unfortunately, there are a limited number of financial advisers making it simply uneconomic for firms to develop and retain them. The cost of qualifying and remunerating highly qualified independent advisers makes it uneconomic for banks, building societies and credit unions to employ them to provide advice to a mass market.

In our view, professionally qualified bankers, and building society/credit union staff would like to give advice to customers, were this possible, banks would like to provide such advice, and customers need advice. We have, unfortunately, inherited a system where we have made it too difficult and too expensive for customers to receive the advice they need. Provided we can develop and sustain high standards of customer-focused, ethical professionalism in the sector there is no reason, it seems to us, why banks, building societies, credit unions and others should not be able to offer simplified advice. This would be in everyone's best interests.

As noted above, the Chartered Banker Institute has developed, together with industry representatives, a proposed set of professional pathways and qualifications (see Appendix 1), which, if implemented, would help to secure consumer confidence and trust in individuals providing simplified advice, maintaining professional standards across the whole advice sector whilst being cost-effective for banks, building societies and credit unions.

Q23. Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?

We agree with this focus to an extent – this is the segment highlighted above in the Citizens Advice Research. This concerns people who could afford financial advice but currently aren't convinced about the need for it or don't necessarily trust the advice they might receive. We accept that this is probably the easiest group of consumers to concentrate initial work, on but financial institutions, regulators and policymakers also need to develop the provision of advice for other groups too, given longer life spans, pension changes, increased demand for long-term care etc.

Q24. Are there aspects of the current regulatory framework that could be simplified so that it is better understood and achieves its objectives in a more proportionate manner?

Yes, we believe a good starting point would be to reconsider the regulatory requirements and qualification requirements for organisations that wish to offer basic or simplified financial advice. The level of qualifications required should be proportionate to the role that advisers are performing and to the risks involved to consumers. Currently qualification standards to support customers making the largest financial commitment many will ever make are set at QCF level 3 for

Mortgage Advice, and we would suggest this should be extended to cover basic financial and simplified financial advice.

As noted above, high standards of customer-focused, ethical professionalism must apply to all advice professionals, and there must be no compromises made in the standard of professionalism required. We believe, therefore, that it would be helpful if advisers providing simplified advice were to be subject to the FCA's new Certification Regime.

Q26. What can be learned from previous initiatives to improve consumer engagement with financial services?

The Chartered Banker Institute's work in raising the standards of individuals working in the banking industry is helping to restore trust and confidence in those working in the banking industry, whilst at the same time ensuring that those working in the industry have a sense of 'professional pride' in the roles they perform.

Whilst there is no statutory requirement for individuals to hold a Chartered qualification, perhaps not surprisingly the recent financial crisis has strengthened public and employer support for professional qualifications in the banking sector. In independent research conducted by YouGov in 2009/10:

- 88% of UK adults agreed or strongly agreed that all bankers should take professional exams.
- 57% of business decision-makers agreed that they would rather be a customer of a bank where their relationship manager was a professionally qualified Chartered Banker, and
- 41% of adults said they would trust a Chartered Banker more than any other qualified individual to give financial advice.

In addition to this, the Institute launched the Chartered Banker: Professional Standards Board in October 2011. The CB:PSB is a unique initiative, led by leading UK banks and the Chartered Banker Institute, to enhance and sustain professional and ethical standards in banking in the UK. The CB:PSB's member firms encompass approximately 75% of the UK banking workforce. The CB:PSB aims to develop and implement professional standards (standards of conduct and expertise) for individual bankers which will contribute to the restoration of public trust and confidence and promote a culture of professionalism in the banking industry. Membership of the CB:PSB is open to any bank or building society operating in the UK, including foreign banks.

In July 2012, the CB:PSB launched its first standard, the Foundation Standard for Professional Bankers (the Foundation Standard). Over 185,000 bankers, including 118,000 in the UK, achieved the Foundation Standard in 2014. CB:PSB member firms have committed that all UK customer-facing staff will have met the Foundation Standard by December 2015. The CB:PSB launched its second standard, the Leadership Standard, in early 2015 and this is currently being implemented by CB:PSB member firms.

We believe that there are three important lessons that can be learnt from the successes of our work:

- 1) Regulators should more actively encourage and support industry initiatives to enhance and sustain a culture of professionalism (such as those cited above).
- 2) It is not just about qualifications – professional standards have an important role to play as well.
- 3) Regulators and the financial services industry need to listen and respond to what customers consistently say they want – they want suitably qualified professionals serving their needs.

Q35. Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

Rather than an alternative approach, we believe that ensuring that high standards of customer-focused, ethical professionalism apply to all advice professionals, will help regulators achieve the desired outcomes in terms of consumer protection.

All professional financial advisers should be members of a relevant professional body, develop, demonstrate and maintain appropriate standards of professional competence, be subject to a code of conduct and undergo an annual appraisal of standards that could ultimately lead to them being struck off if they don't adhere to the required standards.

Q41. What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes?

As we have set out above, our recommendations are that professional qualifications should be appropriate (i.e. with relevant subject area coverage and at a suitable educational level), with advisers required to develop, demonstrate and maintain appropriate standards of professional competence, complete relevant, annual CPD, and be subject to a code of conduct overseen by a professional body. As mentioned in our response to Q26, research shows that consumer trust would improve if they were being advised by a suitably qualified professional.

As noted above, the Chartered Banker Institute has developed, together with industry representatives, a proposed set of professional pathways and qualifications (see Appendix 1), which, if implemented, would help to secure consumer confidence and trust in individuals providing simplified advice, maintaining professional standards across the whole advice sector whilst being cost-effective for banks, building societies and credit unions.