



Harriett Baldwin (West Worcestershire, Conservative)

It is a great pleasure to serve under your chairmanship, Mr Caton. I hope the **Minister** will forgive me for holding this debate on a day when he probably has quite a few other things on. As he knows, however, such debates are a bit of a lottery, and I was not expecting mine to come up today.

According to the Library, this is the first time that the regulation of independent financial advisers has been debated in a Chamber of the House, and we have to ask why. Colleagues on the **Treasury Committee** discussed the topic yesterday, and I have put my toe in the water by asking for a 30-minute debate today. Given the interest that I have encountered in the issue-I have had a binder full of correspondence since the debate was announced last Wednesday-I anticipate that this is not the last that we will hear of it.



Mark Garnier (Wyre Forest, Conservative)

The interest that I have encountered is certainly unprecedented, and I too have a very large binder. Will my hon. Friend work with me to secure a Back-Bench business debate in which we might have an opportunity to debate the issue for up to three hours on the Floor of the House?

Harriett Baldwin (West Worcestershire, Conservative)

Yes. I thank my hon. Friend for that suggestion and I would be delighted to support it.

IFAs are regulated by the soon-to-be-abolished **Financial Services Authority**, the independent statutory regulator set up by the previous Government. Banking supervision is to return to the Bank of England, while many other regulatory functions will go to a new consumer protection body. Thus, this seems an opportune time for the House to debate some of the implications of those policies and some of the functions involved.

Fewer people are benefiting from defined-benefit pension schemes. More individuals are being asked to contact an IFA to obtain advice. Many will receive lump sums from an inheritance or perhaps a redundancy payout, and they will need professional advice to make the most of them. With auto-enrolment beginning in a few years' time, people will also have to decide whether they need to opt out. Many younger people will leave university with student loans. Many older people will need to buy annuities or to make arrangements to pay for long-term care. All those transactions require some financial advice.



Ian Lucas (Wrexham, Labour)

I previously worked as a solicitor and employed an independent financial adviser. Does the hon. Lady agree that it is better to receive advice from an independent financial adviser than a tied agent?

Harriett Baldwin (West Worcestershire, Conservative)

There are indeed advantages, and I thank the hon. Gentleman for his helpful **intervention**. He obviously has a lot of experience of dealing with the sector.

It is estimated that there are about 45,000 IFAs in the country, many of whom are sole traders.



Charlie Elphicke (Dover, Conservative)

Should those tens of thousands of small traders not be encouraged to use their entrepreneurialism to help people save, rather than being squashed by the dead hand of unthinking regulation?

Harriett Baldwin (West Worcestershire, Conservative)

I thank my hon. Friend for that interesting **intervention**. I shall come to precisely that point in a moment.

The market for financial advice suffers from comparatively low consumer trust. Consumers find it difficult to engage with the financial services industry-banks are not exactly the most popular institutions in the country at the moment. Economists would describe buying financial products as a transaction in which consumers have asymmetric information; in plain English, the buyer knows a lot less about the product than the seller. There is therefore a need for proper independent advice.

Along with banks, IFAs have been guilty of selling certain products because they give a better commission. Like banks, IFAs have been found to have mis-sold private pensions to public sector workers. Like banks, they have mis-sold high-

income precipice bonds. Often, they have sold products that simply performed badly or carried high charges. There is no doubt that the industry's reputation could be improved.



Jesse Norman (Hereford and South Herefordshire, Conservative)

My hon. Friend mentioned the **Treasury Committee**, and it may be of interest to note that I was in the Committee yesterday when it talked about this issue. Interestingly, the response from the Association of **Independent Financial Advisers** and the Association of Private Client Investment Managers and Stockbrokers was that the retail distribution review, having started with high ambitions and high principles, not only ran four times over cost, but conducted a somewhat ineffective consultation. I put the question whether, in that aspect at least, it had become a bit of a fiasco, and the witnesses concurred, very much to my surprise. My hon. Friend might want to bear that in mind in future discussions.

Harriett Baldwin (West Worcestershire, Conservative)

I thank my hon. Friend and neighbour. He is a distinguished practitioner and member of the **Treasury Committee**. I am very interested to hear about the evidence yesterday.

We should not underestimate the costs of mis-sales to consumers. The **FSA's** cost-benefit analysis assesses the cost to consumers of the pensions mis-selling scandal at £45 million per annum. In reaction to such circumstances, the FSA has spent the past several years consulting on how to address the issues involved. I share its goal of improving consumers' perception of the industry and access to high-quality investment advice.



Mark Pawsey (Rugby, Conservative)

Does my hon. Friend agree that the new regulations will raise the bar in terms of the standard of advisers, which means that there will be fewer financial advisers in future and that individuals' ability to seek advice will be restricted, not enhanced?

Link to this

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Harriett Baldwin (West Worcestershire, Conservative)

My hon. Friend raises an important point, and I will come to that.

The **FSA** has come up with proposals to address the issue. They are close to final, and the board is likely to take a decision in December. Under the current plans, the proposals will be implemented by the end of 2012. As they stand, the proposals are known as the retail distribution review. As colleagues have suggested, they raise real questions about the role of regulation and the **laws** of unintended, and indeed intended, consequences in terms of regulation.



Andrea Leadsom (South Northamptonshire, Conservative)

Is it not also true that not only will there be a reduction in the number of IFAs, but many of those who have been in the industry for a long time, who are very experienced and who understand the market and customers very well, will unfortunately inadvertently fall foul of the regulations?

Harriett Baldwin (West Worcestershire, Conservative)

My hon. Friend, who is also a member of the **Treasury Committee**, makes an extremely important point, which I will mention in a moment.

The impact of the proposals has been brought to my attention by a range of independent financial advisers, who are also constituents. Acting independently of one another, they all came to see me in my advice surgeries. Under the **RDR** proposals, each IFA should pass a set of exams and then spend at least 35 hours per annum on continuous professional development. Hon. Members should note that the requirement is 35 hours and that 34 hours would not be acceptable. IFAs also need to obtain a statement of professional standing from an accredited body. Someone who, today, is a qualified and approved IFA but who does not meet those requirements by 31 December 2012, will no longer be able to practise his or her profession, despite many years' experience.

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David Nuttall (Bury North, Conservative)

Is not the problem with the **RDR** that many of our constituents will be left without appropriate financial advice because of the introduction of the new rules? Often it is the most experienced IFAs, with the most years of experience, who will be forced out of the profession.

Harriett Baldwin (West Worcestershire, Conservative)

My hon. Friend makes a good point, which I am about to make myself, so I thank him for his helpful **intervention**. Advisers will have to charge explicitly for their services and will not be able to accept commissions. Oxera, the market research firm employed by the **FSA** to assess the costs and benefits of the changes, expects the net present value of the compliance costs to the industry to reach between £1.4 billion and £1.7 billion. Worryingly, the estimate in 2008 was £600 million. That cost will be passed directly to consumers. The latest estimate represents an astonishing 180% increase.

Oxera expects the increase in compliance costs to be passed on to consumers, so they will pay for the changes. Charges will be higher, so sales of financial products will decline. The **majority** of adviser firms expect a reduction in turnover. Consumers with smaller amounts to invest are much less likely to seek advice if they have to pay for it explicitly. Smaller firms of IFAs are the most likely to exit the market.



Ben Gummer (Ipswich, Conservative)

We all want greater transparency in IFAs' charges, but I am concerned about the direction in which the **RDR** is going, because of precisely that point. If we go down that route we shall restrict financial advice to the very wealthy, and do nothing to reverse the appalling savings ratio that we have inherited.

Harriett Baldwin (West Worcestershire, Conservative)

I agree, because according to Oxera's survey for the **FSA**, 25% of firms are very or quite likely to leave the market. That will reduce access to advice for those living in rural constituencies such as mine. It will reduce access to advice for those with smaller amounts of money; the charges for explicit advice will be for those with higher sums of money.



Glyn Davies (Montgomeryshire, Conservative)

Does my hon. Friend agree that there will be a particular effect on rural areas? I live in a rural area, where nearly all the financial advisers are small, one-person businesses. The imposition in relation to costs and time is particularly onerous for them. Many will simply close and the service in rural areas will disappear.

Harriett Baldwin (West Worcestershire, Conservative)

Yes, I agree. **In London** it does not really matter if one person goes out of business—there will be lots more financial advice available; but in rural constituencies such as mine and that of my hon. Friend there will be a significant impact on access.

The IFAs in **West Worcestershire** who have come to my **constituency** advice surgeries have also raised concerns about the exam. Most of the advisers I have seen have been—I know we should not mention age—in their late 50s or 60s. Speaking for myself—and obviously I am still very young—I am not as good at taking exams now as I was when I left university. That does not mean that I have not accumulated something else over the years. I hope that I have a little more wisdom and experience than I had then.



Robert Buckland (South Swindon, Conservative)

I have spoken to many local IFAs in my **constituency** and elsewhere, who provide localised, personal services to individuals who may not be of great net wealth, as my hon. Friend **Ben Gummer** said. Does my hon. Friend agree that asking them questions about international arbitrage and the derivatives market is hardly relevant to the practice they have carried on for many years?

Harriett Baldwin (West Worcestershire, Conservative)

Indeed, that is a helpful **intervention**. I received a letter from someone in the north of England who was concerned about having to learn a lot about non-domiciled investors, which they did not think was very relevant in Sheffield.

In financial markets wisdom and experience are valued. Someone who has lived through a boom and bust cycle in the past is much less likely to believe that the latest investment fad will defy the **laws** of investment gravity. Someone who has seen a few economic cycles is much more likely to understand the ravages of inflation on savings. Someone who has been to a range of conferences over the years is more likely to know when something is really too good to be true. No exam can test that. Yet it is those experienced IFAs, who are often sole practitioners, who will find it hardest to take the time required to pass the specified exams.



George Hollingbery (Meon Valley, Conservative)

Is not the situation also exacerbated by accounting rules? Being compelled to write off goodwill in one year, it is very difficult for groups of IFAs to acquire the business of smaller IFAs, which compounds the problem

Harriett Baldwin (West Worcestershire, Conservative)

My hon. Friend raises an interesting point that I had not even thought of.

The experienced IFAs, who are often sole practitioners, will find it hardest to pass the exams. However, someone who has just graduated from university with a bachelor's degree in financial markets-and I am not knocking that-will be immediately accredited by certain institutions. In the full file that I have received in the past few days are stories from experienced IFAs with unblemished regulatory track records, years of experience, happy clients and no complaints. Yet as a result of the rules, if they do not pass the exams they will not be able to ply their trade on 1 January 2013.



Esther McVey (Wirral West, Conservative)

I thank my hon. Friend for securing the debate. I have had many letters from concerned constituents about it. Independent financial advisers feel that they will be put at a substantial commercial disadvantage by the new rules.

Harriett Baldwin (West Worcestershire, Conservative)

There is an important point to be made about how some of the larger organisations, and indeed some banks and bancassurers, will most readily be able to have their staff trained for the exams. However, that raises the question whether the exams will really test the skills needed by a good financial adviser. In the investment world, experience is valued and the **FSA** is imposing on the market a one-size-fits-all, prescriptive approach to education, at great cost to consumers, in return for a modest benefit.

I have written to the chief executive of the FSA and to date have received a letter, beginning, "Dear Mr Baldwin", simply reiterating the FSA's consultation paper conclusions. I would like to ask the **Minister** to answer a few questions. The FSA is the independent statutory regulator. However, it is answerable ultimately to the Treasury. Does the **Minister** believe that it is proportionate in the present case to impose a regulatory burden of £1.7 billion on consumers? Is the **Minister** concerned that up to 25% of smaller advisers are likely to leave the industry, handing a competitive advantage to banks and bancassurers? Is he convinced that the banks will not be able to find a way to reward employees for pushing certain products? Does he share my concern that the FSA's own impact assessment suggests that those who get reduced access to advice are likely to be the smaller, poorer consumers in more remote areas?

Does the **Minister** think that there might be a more proportionate way for the FSA to achieve its objectives? For example, IFAs who have passed exams could add the letters of qualification to their business cards. Consumers could then be educated and could choose an unqualified adviser if they preferred, but would come to know over time that there was a brand to the qualification.

Jesse Norman (Hereford and South Herefordshire, Conservative)

There is also a simple solution for firms of more than one person, which is that the senior member can sign off on the work or qualification of the person who has not received formal accreditation. That allows for the sharing of liability, the preservation of standards within the firm and the guarantee of good quality to the customer.

Harriett Baldwin (West Worcestershire, Conservative)

I thank my hon. Friend for that helpful suggestion.

I would also like to ask the **Minister** how changing from commissions, which are currently exempt from **VAT**, to advice, which will attract VAT, will not add a further cost for consumers.



Andrew Bingham (High Peak, Conservative)

On the subject of commissions, the IFAs in **High Peak** who have spoken to me are concerned that removing the option of commission and replacing it with up-front charges will prevent people from getting the independent financial advice

they need. Conversely it will prevent IFAs from taking the exams, because of the downturn in work. That means many people will not get the independent financial advice they will need.

Harriett Baldwin (West Worcestershire, Conservative)

Yes, that is a question to be considered as well.

Does the **Minister** really believe that consumers should not be allowed to choose whether they pay explicitly for advice or whether they pay through commission? Does he believe that it is consistent with **UK** legislation retrospectively to change the qualification regime for a whole class of practitioners? Finally, does he agree with one commentator, who described the **RDR** as *"a sledgehammer to miss a nut"*?

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11:18 am



Mark Hoban (Financial Secretary, HM Treasury; Fareham, Conservative)

I think that that commentator was my right hon. Friend **Mr Redwood**.

I congratulate my hon. Friend **Harriett Baldwin** on securing the debate. She said that it is the first debate we have had on IFAs for some time, which surprises me given the amount of interest it has generated and the volume of correspondence that hon. Members received during the previous Parliament about the **RDR**.

The structure of regulation in the **UK** means that regulation is the responsibility of the **FSA**, not the Treasury. Treasury Ministers cannot dictate to the FSA how it should do its job. That might seem to my hon. Friends an attractive idea in the present circumstance, but they may be able to think of other circumstances where it would be less attractive. Today of course we are announcing the settlement in relation to **Equitable Life**. Those losses arose when the Government were responsible for the regulation of financial services, so do not be tempted down the route of suggesting that the Treasury should do all financial regulation.

Access to high-quality and independent financial advice is vital to increasing confidence in the financial sector and to ensuring that people are encouraged to save, plan for the future and make appropriate choices. As my hon. Friend said in her speech, the impact of receiving poor adviser advice can be financially disastrous for the consumer. We do not need to go far to find evidence of that—look at cases of widespread mis-selling of products such as pensions and endowments and, more recently, of structured products.

The **Financial Services Authority's** view is that the regulation of independent financial advisers, in particular through the retail distribution review, is essential in rebuilding trust in the industry when confidence in financial services is at an all-time low.



Dan Rogerson (North Cornwall, Liberal Democrat)

The **Minister** is clearly outlining that risks are involved in the advice given by independent financial advisers. Does he agree that a risk-based approach, which is responding to complaints and which might require longer-standing financial advisers to undergo retraining, could be a better way of tackling the issue?

Mark Hoban (Financial Secretary, HM Treasury; Fareham, Conservative)

That is an interesting point, but my hon. Friend should bear in mind that with some products, which might be long term, it can be some time before an issue emerges. If people buy a product in their 30s—a pension product, for example—they might only find out in their 60s that they had been mis-sold something. There is a real issue about looking at complaints records in that way.

The retail distribution review aims to address the structural problems in the distribution of retail financial products, such as conflicts of interest, transparency and professional standards. Although the **RDR** is the responsibility of the **FSA**, I fully support its aims—all colleagues should support those objectives. I hope that the RDR will lead to increased confidence, simplicity and clarity in the financial advice sector.

On professionalism, hon. Members are familiar with the fact that the rules seek to ensure that all financial advisers adhere to common professional standards, including an increased minimum qualification level, effective maintenance of knowledge and subscription to a code of ethics. The current minimum financial adviser qualification is at the same level as a diploma in shift management offered by **McDonald's**. We should all reflect on that for a moment: the products being sold by IFAs are infinitely more complex and more long-lasting in their effect than a **Big Mac**.

The rules aim to improve trust and the service offered to consumers. Consumers will have confidence that their financial adviser is up to the job. Investment advice will be seen as a professional activity, financial advisers will have a new status and fresh talent will be attracted to the industry. The FSA reports that, rather than being put off by studying, many financial advisers are going on to obtain more advanced qualifications than those required by the RDR. One of my constituents, who is an IFA, has said that when the FSA raised the minimum bar he wanted to go even further, to demonstrate that his qualifications, knowledge and technical expertise went beyond those of his peers. The FSA also noted that take-up for financial planning degree courses has increased.

I know that many financial advisers have concerns about meeting the increased qualification standards required by the RDR, but almost half of advisers already meet the required level, with two years to go before the RDR is introduced. Many financial advisers feel that the new rules should be "grandfathered," so that those advisers with experience are exempt. However, how do we know how good those advisers are? Someone might have been in the industry for some time, but is that necessarily a guarantee of the technical expertise and quality of advice?



David Nuttall (Bury North, Conservative)

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Mark Hoban (Financial Secretary, HM Treasury; Fareham, Conservative)

I only have seven minutes left and my hon. Friend the Member for **West Worcestershire** gave way quite a lot, so I would like to make some progress.

The existing qualification requirements for advisers focus mainly on knowledge, whereas the new higher level is primarily about understanding and applying that knowledge, which are core skills for every adviser to demonstrate. The result is a level playing field where consumers can have confidence that their adviser meets a required standard.

IFAs are not the only people who have an interest in this debate. The consumer group Which? welcomes the **FSA's** increased standard, as it does not feel that the current qualification level is sufficient.

Advisers are required to maintain competence under the FSA's current rules as part of their approval conditions, and so those advisers that have actively engaged in maintaining competence by keeping up to date with market developments should not have to commit a significant amount of time to study. Continuing professional development can be used to fill any gaps between existing and revised examination standards, and financial advisers can opt to undertake an alternative basis of assessment, instead of a traditional written qualification. That addresses one of the points made by my hon. Friend the Member for West Worcestershire, about how someone who is slightly long in the tooth, as I am, might not be as exam-ready as someone straight out of university. The alternative assessment might well help advisers in such a situation.

On adviser charging, at present financial advisers earn different amounts of money as commission payments, depending on which particular firm they recommend a product from and on what product they recommend. That creates a potential conflict of interest which can be damaging to consumers and undermines trust in the investment industry. The **RDR** rules on adviser charging are designed to tackle the risk, as well as the perception that commission paid by product providers might bias advice.

FSA consumer research also found that only half of respondents understood how the value of their product would be affected by commission. To add to that, in October 2007, Which? conducted a survey of IFAs and found that 82% of advisers failed to explain the document on the key facts about the costs or to have a meaningful discussion with their client about how advice would be paid for. There is a big issue to be addressed-getting people to understand how they are paying for advice at the moment-and IFAs have a role to play.

It should be noted that consumers already pay for advice, through the commission structure in their product. We are not doing anything new by ensuring that consumers know how much advice costs. It is important that consumers understand the value that good financial advice can add and that we create a much more transparent market in which advisers compete on cost and quality. That is a good outcome for consumers.

My hon. Friend mentioned how banks reward employees for pushing certain products-I understand her point-and the FSA is to look into how the reward structures of in-house sales staff in banks affect their performance.

On ability to pay for advice, we need to bear in mind that not enough people are in receipt of financial advice. That is one of the reasons why our party, in **opposition** and now as part of the coalition Government, has been able to support the **Consumer Financial Education Body**, the introduction of a social responsibility levy on the financial services sector and the funding of a free national advice service, which will help people review their financial affairs regularly, plan ahead and ensure that they hold appropriate products. Such measures will help tackle some of the advice gap. I hope that the industry will work in partnership with the CFEB and the Government to ensure access to financial advice.

A number of my hon. Friends raised the issue of the disproportionate impact of RDR on small firms. I appreciate that concern. Smaller IFA firms, in remote areas in particular, will feel the impact, and they are more likely to struggle to meet the challenges of the RDR proposal, unlike the larger IFA firms and the banks, and instead might decide to exit the market. However, the RDR will apply to all advisers in the retail investment market, not just to IFAs.

Although the change will bring challenges in the short term, it is important that we see the advice sector grow and strengthen in the long term. New and existing firms can increase supply in the long term to meet that demand, and indeed the FSA has found that a larger proportion of the costs of the RDR will be borne by larger firms.

In respect of the costs being passed on to the consumer, it is true that with the RDR come implementation costs. The Oxera research commissioned by the FSA found that such costs could translate into higher prices placed on consumers in the short term. However, over the longer term, it concluded that the higher prices could be competed away through increased transparency of prices, encouraging consumers to shop around.

I could respond to many more issues. I will write to my hon. Friend the Member for West Worcestershire on RDR and tax issues.

We all want to ensure that consumers have access to good-quality advice, delivered in a transparent and professional way, so that people understand what they are buying and have paid for. I believe that that will be taking a major step forward in improving the financial outcomes for our constituents.

Sitting suspended