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## Now it's time to save the day

As IFAs head deeper into the recession they will need good leadership as well as management to overcome all the odds

### Key points

- The market is in a renewal and reorganisation phase of emerging from chaos and collapse
- Customers need to believe in the brand and its values to purchase products and services without question
- Right now there are many vulnerable institutions producing investment products for themselves and the retail market which are not understood by the managers distributing them

The FSA has admitted its light touch approach to regulation was key to the rapid growth in the independent financial services sector.

More regulated environments were competing for the space but the IFS had the magical formula of a stable and trusted banking system and light touch regulation - a formula for beating the competition and earning corporation tax revenues.

For a while it was a winning formula, but, when the global banking system went into meltdown, it almost became a formula for disaster.

A great deal of what went on during this rise and fall was of little value and use to the individual investors and the banks showed they did not have the discipline to control this wave.

The complexity and range of investment products created for the retail and corporate sector was confusing and seemed to serve one purpose. That was to make money for the bank, not the customer. I know this, to many, sounds harsh or unreasonable but that is how the man on the street perceived it.

So, for IFAs now, the challenge in this time of crisis is to turn around this perception in the minds of customers.



The market is in a renewal and reorganisation phase of emerging from chaos and collapse.

But at present, the IFA has a much better chance of regaining the client confidence and trust of the customer than a semi state-owned bank.

Consumers know that the banks are complex and sophisticated but also understand that they are greedy, cynical and self-interested.

So now is a time for IFAs to reinvent themselves, a great opportunity to revisit the customers' real needs and deliver a product and service which does the basic job at a cost that is reasonable and allays all fears of IFA greed and self-interest.

IFAs now need to voluntarily take the step over the line and completely professionalise the industry.

It is not a new problem but it is necessary if IFAs are to win back customers.

Customers need to believe in the brand and its values to purchase products and services without question.

This means change - and lots of it - in an industry that traditionally does not respond readily to it and indeed may well feel it has already been subjected to too much change.

This is paradoxical but quite normal. As a management consultant I have often seen how enforced change always feels many times more painful than voluntary.

IFAs will have dealt with the old conflict issue. They will be able to honestly say: "I am selling you a service irrespective of commission, I am your real financial adviser and I am a broker who complies with the FSA regulations."

They will have overcome the conundrum that is not unique to the IFA industry - look at estate agents for example - which goes: "I get a commission for selling to you, so I will do anything to get that commission even if you do not necessarily like it. Anything for a sale."

In addition, right now there are many vulnerable institutions producing investment products for themselves and the retail market which are not understood by the managers distributing them.

In recent meetings with top executives at some of the larger institutions they will privately admit that some of the risk profiles of their products are mathematically sound but would not pass the common sense test of an experienced financial adviser.



## **Genuine**

So what IFAs need right now is education and experience to advise properly.

It will need genuine leadership to drive through and sort out the education and qualification muddle - and, currently, it is a muddle.

Obviously professional qualifications take time to create and develop. I am not sure that anyone is looking for chartered status, nor is it necessary, but demanding high professional standards based upon a format of qualification and a period of practice can easily be driven and managed by the trade associations.

Recently, I decided to take some soundings on this issue and found Emyr Blease, the boss of Holborn Financial, refreshingly enthusiastic about education. He felt that there were a smart group of IFAs who would support and lead the way on a proper system of education training and examination supported by experience and practice.

The current approach of course involves exams, but not a proper teaching process. This has to change as the industry improves the quality of its advisers.

When the last major exam requirement was imposed in 1996, it seemed to have the effect of cutting down the population of advisers from 350,000 to 50,000 by the year 2000.

A more robust training and education program will not do anything overnight but my prediction is the number of IFAs will fall again - to about 20,000 - but the age profile will be younger and more representative of the customer demographics - more female - and far more formally educated as advisers.

Like all cycles affecting industry, the cycle of growth, destruction and rebirth which we are in now goes on.

But after this crisis things will not be the same again, as they are never the same after any crisis.

Nonetheless, there is a major opportunity to be taken by those who adapt best and seize the market through well-educated, accurate transparent advice and strong leadership.

So in summary, as IFAs head deeper into the recession they will need good leadership and management.



As a matter of priority remove the conflict issue by clear, transparent practises; make a decision about advisory or brokerage; and finally compete better in the marketplace through top quality, better trained advisers.

This transformation will need managing and you may need advice to help you get there ahead of the others. But, with luck, you will enjoy the journey.

**Paul Winter is chief executive of management consultants Corpra and visiting professor at the school of built management at Oxford Brookes University.**

