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Address by Trevor Matthews, CEO, Friends Provident Group plc

Slide: (TJM title slide)

Good morning ladies and gentlemen. I'm delighted to have been invited to help kick-off this very interesting day of debate and discussion. If you don't mind, though, I would like to change just one word in the topic title you've given me…

Slide (TJM title slide amended)

I'd like to change emergent for emerging. Emergent indicates a final position. It gives the impression that once the RDR is implemented, the job's done, and the financial planning profession will be changed into what it needs to be. But it won't. The RDR is an important milestone along the way, and it will help to bring financial planning to nearer where it should be, but it won't get us there, so things will still be emerging.

Slide (…profession)

But having taken slight issue with one word in the title, let me emphasise the importance of another – the word profession. To me that's the key word. Our challenges and our opportunities should all be focused on building financial planning to a true noble profession - where it should be – dare I say, where it used to be - in the eyes of those we serve.

It's interesting that some research commissioned a couple of years back by the Chartered Insurance Institute (CII) into what constitutes a profession put in the top spot, quite rightly, 'Acting in the client's interests'. For all the good intended by the RDR, if it doesn't result in a better world for customers, in terms of wider and easier access to good advice, from good advisers, about good products, then it will have failed.

Regarding the other characteristics of a profession, shown on the slide, they are collectively what is expected from us; this is what it means to be professional – to always have the client's interests at heart; to live and work by a code of practice; to have qualifications that aren't easy to get; to demonstrate ongoing competence; to be independently regulated, to be accountable, and to be subject to enforcement and discipline when high standards are not met. This is why I say we are on a journey. When I look at that list, I think we are making good progress in a number of areas, but we're certainly not there yet.

Slide (cartoon)

We also have to acknowledge that we're not starting from a good place. This may make us smile, but for many consumers, this is reality and not funny at all. The perceptions of financial services are pretty low in the minds of most consumers, and who can blame them? They've been persuaded to give up good pensions for less good ones; they've bought policies which they believed would pay off their mortgages but didn't; they've been befuddled by complex product terms designed to camouflage commissions; they've trusted in default funds, believing there were experts behind the scenes looking after their interests, only to find there were not; their pension savings have fallen off a cliff, along with their retirement prospects, and so on. There is nothing more challenging for us to do than rebuild trusted and valued relationships with these people, but it won't be easy and it won't happen quickly.

Slide (Obama quote)

If there is a silver lining to the dark clouds hanging over consumers, it is exploding the myth that a debt-based culture is the way to live. In a speech not too long ago, Barack Obama said this: “An economy built on reckless speculation, inflated home prices and maxed-out credit cards does not create lasting wealth. It creates the illusion of prosperity and it endangers us all.” If consumers have learned this lesson, that would represent a big step forward.

Slide (credit crunch positives)

And while on the subject of positives to emerge from the credit crunch, I think these are worth noting. First, it’s clear that we will never go back to how things were, nor should we. Regulation will help to ensure this, but we too must be determined to create and shape the new financial era.

Second, the life industry has in general proved itself to be financially robust, weathering the financial storms quite well. This is a welcome sign of stability and should give consumers confidence that these companies are likely to be around for the long term.

Third, the credit crunch has magnified the need for financial protection. Because bad things are happening to more people, more often, people realise that it could happen to them, and are asking themselves, ‘what if it did?’ These are the worries that good advisers should be shouldering for their clients. This opportunity is with us right now.

But I emphasise, *good* advisers. It was interesting to read recently that people who had lost money or, in hindsight, had made a poor financial decision, really appreciated their financial adviser staying in touch and helping them understand what’s happening. Too many advisers think that it’s best to keep their heads down in these troubled times, but good advisers know better.

Slide (back to the future)

So where do we go from here? To borrow the title of those famous films, we need to go back to the future. That is, we need to look back, recognise the good things that we’ve lost, and try to retrieve them. We also need to be excited about where we are today, and the good progress being made, and finally, we need to work towards a vision of how things could be.

I was tempted to use the title of that other drama about going back in time – Ashes to Ashes – but mentioning Ashes is just too painful for me at the present time.

Slide (the past)

Starting with the past, I’d like to point to four things. Products tended to be more straightforward, but then, as I’ve hinted already, complexities were introduced, often to mask commission. The move towards consumer-agreed remuneration should mean, among other things, that product design can be simplified again. In that sense, consumer-agreed remuneration is a good thing and is certainly appropriate for savings and investment products, just as I believe it is inappropriate for protection products.

I believe that extending the Retail Distribution Review and customer agreed remuneration to protection will cause consumer detriment. The investment and the protection markets are fundamentally different. There is no evidence that the protection market is broken or that we have market failure. In fact the reverse is the case, we have a significant protection gap in this country at the present time. There is no reason why every married couple with dependents should not have a spectacular amount of low cost life insurance in this country. In the investment market the returns and outcomes on investment products are uncertain. I believe clients need good trusted professional advice at the outset and on an ongoing basis. The protection market is much simpler. The cover and the level of premium are normally fixed at the outset. If the insured event occurs what you see is what you get. The protection market is very competitive. Protection rates in this country have never been cheaper. The market is open, transparent and it is easy to compare levels of cover and prices. Forcing protection to the customer agreed remuneration just for the sake of consistency will reduce sales and this will cause consumer detriment. Extending the retail distribution review and customer agreement remuneration to protection I believe is not only unnecessary but dangerous.

Employers in bygone days, or at least the good ones, tended to be more paternal. For example, I've only been with Friends Provident just over a year, but I understand that when the company moved down from London to Dorking in the 50s, as well as building a new office, it also built or bought houses for its staff. I'm not remotely suggesting we should go back to that, but I do know that some employers today are keen to help their staff appreciate a more holistic view of their finances. I'll come back to this, but the point I'm making here is that there are opportunities now to build relationships with employees in the workplace as well as with consumers.

Client/Adviser relationships were long term. The obvious example was 'the man from the Pru' who was seen as a trusted friend of the family, tracking key family events and guiding the family's financial decisions. That model is no longer affordable but we have to find ways of achieving the same outcome.

I think one of the challenges for today is for IFAs to see, particularly, protection as a means for creating long-term relationships with their clients and for creating long-term value in their businesses. Cashflow from commissions is key to this. In my view, the ideal model is level commission over the term of the contract. This not only provides, in due course, a known and reliable income, creating business value, but also protects their client bank, making it more beneficial to create lasting relationships where repeat business would become the norm, rather than the exception that it is today. It has to be better to create long-term relationships with 200 real clients than sell a single product to 2,000 names on a list.

Finally, the demise of direct salesforces over recent years also saw the demise of some excellent training academies that went with them. That is a gap that needs to be plugged, and I am encouraged about how that is happening today.

Slide (the present - logos)

There's no doubt that the industry is working hard to help advisers get to where they need to be for the RDR in 2012, with support being offered from providers, nationals, networks, service providers and banks. The logos shown, by the way, are representative rather than exhaustive, and the type of support ranges from training materials; academies and study support; exam technique workshops; funding members through to diploma level which I believe is offered by Positive Solutions for one, and maybe others; refunding exam costs on passing – something that SimplyBiz does, for example; free access to workshops – ThreeSixty is an example of this. Obviously I'm closer to Sesame than any of the others, and I know the aim of their academy is to increase the pass rate for diploma exams. The pass rate is around 50% indicating that too many people are not sufficiently prepared when they sit their exams. Sesame's aim is to hit an 80% pass rate over the next three years. As I say, just a snapshot but encouraging to see.

Slide (the present – CII statistics)

It's also encouraging to look at some of the CII stats, which show good momentum for gaining qualifications. At the end of July this year there were some 14,600 Diploma holders, the QCF level 4 equivalent needed for the RDR world, but over the last year and a half, a further 10,000 or so people have started out on the Diploma journey, more than half of those this year, so the pace is quickening. I know that the CII had to lay on an additional sitting for exams in July to meet the growing demand.

Of the diploma holders, more than 1,800 have gone on to become Chartered Financial Planners, the QCF level 6 equivalent, and that's about twice the number there were in 2007. We know there's about 3,700 more en route to become Chartered, although not all by 2012. I am in the camp of wanting to see level 6 adopted as a minimum standard, which is equivalent to a BA degree. And I'm not alone in that camp; I know Faye Goddard, chief executive of The Personal Finance Society, put up a slide back in June showing that 96% of the public think that financial advisers should have a degree level qualification. And remember, we saw earlier that high entry standards are part of what people expect from a profession.

However, I do feel strongly that there should be a Work Based Assessment route available as an alternative to the examination route. I've been a bit cheeky showing a warning sign for the elderly to illustrate this point, but there are many IFAs, good IFAs, who are excellent advisers and who have been in the business for many years but who haven't sat a professional exam for perhaps thirty years. The estimates for how many advisers will be lost because of the qualifications required varies wildly between the FSAs rather conservative 10% to one of my competitor firms saying 40%, but whatever the percentage, we don't want it to include these good, experienced advisers.

Slide (the future – new advisers)

So what about the future? A major challenge and opportunity is the need to attract the next generation of advisers. We can argue about the numbers but we know for certain that there will be fewer advisers post-RDR than now. We also know that advisers tend to gravitate towards their own age group, so who is going to look after the mid 20s/early 30s people and all their financial needs?

We need to attract bright graduates into what must become a worthwhile and respected profession. The code of practice we work by must appeal to those who are not only good with figures but care about people too, and have a desire to make a positive difference. We have to learn from other professions such as yours about how to bring these people through, and replicate what they offer.

There should also be wider use of apprenticeship schemes or ways of mentoring good people who are already in our industry, perhaps in administrative roles, so they too can progress into the adviser role in a joined-up way.

We know things are tough right now, and preparing for the RDR costs money, but I think our industry must take the longer view of things. I believe if we get the structure right, then the market will work and it holds the potential of offering significant rewards for good advisers.

Slide (The future – technology)

But good people are only half the story. I believe the other half lies with technology. We must embrace creative technology wholeheartedly. Having a basic website and a basic customer relationship management programme is nowhere near good enough today. We have to build technology into the way we build relationships with clients. This is what will drive efficiencies, lift service levels, widen markets by enabling advisers, for example, to better serve 'low value' customers. Only through technology will advisers meet the high expectations of the computer-savvy generations and future-proof their businesses.

I'm excited about the potential of corporate platforms too. I think they will go a long way to help advisers as well as customers more readily appreciate a holistic view of their finances and financial needs. In a single hit, clients can be challenged to consider not just their need for, say, life assurance, but also tax planning, their attitude to risk, the role of overseas investments, and so on. Holistic financial planning is a real opportunity, and can be achieved through effective technology.

I'm also excited by the opportunity for providers and advisers to cement closer relationships and, again, technology is the link. I see providers developing online tools to enable advisers to assess the financial needs of their clients in a way that they can't at the moment, and to meet those financial needs in a more imaginative and cost-effective manner. That's certainly where my own company is devoting a lot of thought.

We have to demonstrate that financial planning is a value-adding profession and technology holds the key. I don't always buy the argument that the financial planning profession should be more like, say, doctors or lawyers. People know when they need a doctor or a lawyer, but they don't know when they need financial advice. We have to equip ourselves with the tools that make that need more obvious. That's the way forward.

Slide (cartoon)

We must never go back to how things were.

Enjoy your discussions today. I am sorry I cannot stay with you and participate further. I think it is important that we maintain the momentum with the Retail Distribution Review. We must raise standards, we must increase professionalism but we must not make the mistake of extending the Retail Distribution Review and customer agreement remuneration to protection.

Your profession is ideally placed to embrace the new emerging profession of financial planning. Good luck.