

Industry Business Model

Summary

Trust in the financial services industry needs to be raised. Only when consumers have complete confidence in the industry to provide suitable products at reasonable prices will they save and invest for their future and so reduce the reliance on the state.

In its attempts to raise trust, the industry regulator, the Financial Services Authority (FSA) is keen to enhance standards of professionalism across the financial services industry. To achieve this, they have embarked on a more interventionist approach following the announcement of a fundamental review of retail financial services in 2006, known as the 'Retail Distribution Review' (RDR).

RDR has been positioned as a set of cultural and behavioural changes that will raise standards across the industry, improve transparency, remove commission bias among all categories of intermediary and help to restore trust among consumers.

AXA fully supports the need for greater transparency that the RDR will help to deliver. Similarly we are supportive of the need for more highly-qualified and professional advisers and for clearer and better disclosure of remuneration. AXA Life has advocated for some time the banning of commission payments and factoring (where an adviser is able to receive a high initial commission payment on the sale of a policy, which the insurer will recoup in instalments from that policy). We are pleased that these changes are now being introduced.

The new framework will apply to all advisers in the retail investment market regardless of the type of firm they work for (including banks, product providers, independent financial advisers or wealth managers).

However, we need to ensure that 'middle market' consumers (who tend to sit between the people who rely on state benefits to manage their future aspirations and the higher net worth sector - those who tend to have fairly substantial amounts of invested capital) do not become 'unadvised' since the existing plans are not specific about how the advice market will operate in this area. Such middle market consumers are unlikely to be able to afford (or want to pay for) full advice and so we welcome attempts to make some form of simplified advice structure available. However, we remain sceptical as to whether this can be developed and delivered in a way that would satisfy the Financial Ombudsman Service.

In the expectation that the fundamental changes being introduced by the RDR will commence on 1 January 2013, further consultations around some proposals will be issued and AXA will play its part in these consultations, either directly or via the industry trade body, the Association of British Insurers.

When they are applied, the RDR changes will be both far-reaching and challenging but they do provide an excellent opportunity to rebuild consumer confidence and trust.