



## **New Year Message from Garry Heath, Director General, Libertatem**

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### **What Are You Doing for Your Sector in 2016?**

2016 is going to be a vital year for advisers and many of the bigger decisions will be made by March 16th when George Osborne announces the results of the FAMR.

If we are to succeed advisers will need to support us not just by word – we have plenty of that – but by joining or contributing to our Fighting Fund which is doing well but could always do better.

So I ask what you are doing for your sector in 2016? We are fighting your corner - what are you going to do? Just Watch?

Libertatem has now put its views to the FAMR Team. We do not expect them to be popular with the some of the vested interests in regulation, but we believe that profound change is necessary if the adviser sector is to survive and prosper.

If we take the FAMR announcements at their word; the respondents are required to suggest real change leading to an increase in the availability of advice. This we have done.

We base our ideas on creating a stable funding base for FSCS costs, separating proper professional advice from client sales. thus separating the regulation of small firms from multinationals and bringing accountability to the actions of FOS. These three drivers will create a far more stable environment for professional advisers to grow and advise more clients whilst encouraging greater investment on the sector.

Our first suggestion is that FSCS should be levied on the investments of all clients previously advised by the IFA sector. This will not only remove the bill arriving at advisers' doors but will also ensure the 16m clients able to make a claim are funding the payments for those that do. Currently the claims of the 16m are funded by the 5m current clients.

FSCS costs have been an unresolved issue since 1988 and has been used by other distributions to attempt to control advisers. Whilst there is no perfect answer; our suggestion would be easy and inexpensive to collect and lay the cost on those who benefit.

Libertatem's average member will see their direct regulatory costs increase by £10,000 this year and £6,000 of that will be FSCS. If we moved the cost of FSCS directly to the client's investments immediately; the same firm would save nearly £20,000 in FSCS costs. This would allow advisers to cut charge rates or invest the money in better structures. more staff etc. Either way we will improve the numbers advised and bring greater stability to advisers' cash flow.

Our next suggestion was PAR – The Professional Advisers Regulator. The alternative is a profound restructuring of the FCA but we see that organisation as being too compromised to make that credible.

If you doubt that assertion look at the handling of the HBOS enquiry. It is seven years since the collapse of HBOS which cost the UK taxpayer £20 billion, Lloyds and former HBOS shareholders £54 billion and 40,000 bank employees their jobs. Not a single director fined and not a single regulator identified as the enquiry took too long – how very convenient!

Similarly, The FCA announced that it would no longer be publically pursuing its review into Banking Culture and instead will "engage individually with firms to encourage their delivery of cultural change". Given the huge revolving employment door between bank and regulatory staff; expect any regulator to be "engaging" with a CV in his back pocket

All this is risible but it is also dangerous for advisers. If banks are off limits where will the regulator go to prove its virility and worth? It has a £500m empire to support so it needs to create a regular crisis. Advisers are the obvious whipping boys not only for the regulators but also the ambulance chasers who can see the PPI gravy train stopping soon.

The only answer is for advisers to get out now and create a regulator that is designed for advice they give and the risk they actually present to the consumer with rules that make sense to their particular business model rather than the compliance departments of blue chip firms who will game the system. We are convinced that creating PAR will cut these costs significantly. But this only will happen if we lobby for it now.

Finally, we need to make FOS accountable. In terms of the number of claims; Professional Advisers as a group, have little to worry about with less than 2 in 1,000 FOS claims found against them. However, it is the eccentric nature of FOS's decision making that creates costs and lost opportunities.

Advisers spend a huge amount of time issuing unread paper to clients which attempts to ward off claims in the future. This is time that could be far better spent advising new clients. But the operation of FOS has a second and more subversive effect. Its lack of boundaries stops new distributions and new ideas being developed.

In 2011, the FSA persuaded the Treasury Select Committee that RDR would be OK once "Simplified Advice" was introduced. It didn't arrive because FOS was not trusted to offer simplified judgements. Similarly, new capital is very wary of the sector again because of FOS and the regulator.

So I return to my original theme, which you will perceive is borrowed from JFK: "What Are You Doing for Your Sector in 2016?"

At least up to March 16th; I am going to fight for a better future for professional advisers but I cannot do it without your support now.

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