

Financial advisers struggle to survive

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Financial advisers across the country are struggling to meet stringent new requirements on how they run their businesses, intensifying fears that many will quit the profession.

Advisers who take a commission for financial advice face extinction after the Financial Services Authority confirmed in June that **the practice will be banned from 2013**. Instead, they will have to agree a fee for their advice with the client.

Financial advisers will also have to be better qualified. Experts say a new certificate is pitched at the level of the first year of a university degree, whereas the current qualification requires school-level study.

The moves are likely to force many financial advisers out of business. A report published this month by **Ernst & Young, the professional services group**, predicts that of the existing 35,000 independent financial advisers in the UK, just 10,000 will remain in three years' time. A further 10,000 will switch to giving "restricted" advice, where they advise only in certain areas such as mortgages.

Many advisers will struggle to take the new qualifications due to time constraints, while others lack the appetite for further study. Only a quarter of advisers are at present qualified to the new standards. Chris Cummings, head of the Association of Independent Financial Advisers, estimates that up to 10 per cent of advisers will retire early for this reason.

Firms will also struggle with new rules on capital adequacy. Larger advisers, such as Hargreaves Lansdown, the FTSE 250 company based in Bristol, meet the requirements comfortably and are less likely to suffer. But medium-sized firms with between 12 and 20 advisers will be harder hit, as they face a leap in their capital requirements from £10,000 to £350,000 by 2011.

The industry is lobbying the FSA to extend the deadline for the changes to four years, which Mr Cummings insists is an "absolute minimum" in an economic environment in which firms are hard pressed to raise cash.

Financial advisers will have to foot an initial £210m bill for the reforms, which is likely to equate to about £6,000 per adviser. They will incur large costs in switching their systems away from commission-based models. Only 15 per cent of existing firms operate on a fee-only basis.

The commission-based model is blamed for encouraging bias among advisers, as product providers compete to offer higher levels of commission. The practice was said to be one of the key factors behind the mis-selling of the past 20 years, such as the scandal of mortgage endowment policies.

High commissions have also been held responsible for "churning", where an adviser encourages a customer to sell one product and buy a very similar product because it pays a higher rate of commission. Life assurance companies expect a substantial reduction in churning from 2013.

Fears persist that independent financial advisers will be forced to restrict their services to rich customers, leaving the bulk of the population able to afford only restricted advice. Anyone calling themselves "independent" would have to advise over the entire spectrum of pension and investment products, meaning their fees are likely to be higher. Those who wish to specialise in a particular area will be said to give "restricted" advice – but the qualifications they have to take will be the same.

Nonetheless, the emphasis on qualifications is expected to raise the reputation of financial advisers, who are often dismissed as dodgy salesmen, and attract new graduates to the profession.

"Advisers, though a lot fewer than now, will be recognised as professionals," the Ernst & Young report predicts.

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