



**Unite response to the FSA Consultation 10/14 Delivering the RDR:
Professionalism including its applicability to pure protection advice,
with feedback to CP09/18 and CP09/31**

This response is submitted by Unite the Union. Unite is the UK's largest trade union with 1.5 million members across the private and public sectors. The union's members work in a range of industries including financial services, manufacturing, print, media, construction, transport, local government, education, health and not for profit sectors.

Unite is the largest trade union in the finance sector representing some 150,000 workers in all grades and all occupations, not only in the major English and Scottish banks, but also in investment banks, the Bank of England, insurance companies, building societies, finance houses and business services companies.

Executive Summary

- **Unite recognise the need to reform professional qualifications however it is important not to lose sight of the impact such up-skilling will have on the workforce;**
- **Unite is calling on the FSA to ensure that employers act fairly when dealing with individuals who may find this transition difficult and ensure that sufficient support is made available to ensure a positive outcome whenever possible;**
- **Transparency in remuneration is vital to reassure consumers that advice provided is not influenced by the sales advisor reaching target and further should be seen to be treating customers fairly. However the system must also be seen to be fair to staff;**
- **It is important that suitable resources including financial and study time are put in place to ensure individuals are able to obtain the necessary qualification;**
- **Unite would hope that employers undertake to consult fully with trade unions and employee representatives in the formulation of policies surrounding individuals who may face the threat of redundancy on grounds of capability due to the new qualification.**

Introduction

1. Unite welcomes the opportunity to respond to this consultation paper which seeks to embed continual professional development as a cornerstone of the financial services sector combined with robust implementation of ethical behaviours.
2. The introduction of improved skill levels coupled with robust monitoring and regulation of the sector is likely to improve perceptions of the industry by both the public and the media. Unite is also aware that when agreed in conjunction with relevant individuals, continued professional development will improve knowledge and skills, increase morale and provide a positive image of the industry all of which will work to help restore consumers' confidence in the advice they receive and in the sector overall.
3. Unite therefore welcomes the enhanced supervision and enforcement proposals put forward in the new professional standards and agrees that the proposed changes should apply across the company to all approved persons and not only those within the scope of the RDR.
4. However, while recognising the necessity to reform professional qualifications it is important not to lose sight of the impact such up-skilling will have on the workforce who will be required to reach the necessary standard within a specific timeframe.
5. There is a balance to be struck between qualifications, knowledge and experience and the requirement to improve qualifications may well put pressures on the workforce both in terms of their existing workload but also in the need to find time to study for the higher level qualifications.
6. Unite is calling on the FSA to ensure that employers act fairly when dealing with individuals who may find this transition difficult and ensure that sufficient support is made available to ensure a positive outcome whenever possible.
7. Unite would not wish to see a situation where individuals who may find it difficult to achieve the new standard are then managed out of the company without being given sufficient opportunity to meet the changing needs of the industry.
8. Unite sees a role for the FSSC in developing standards which will encourage engagement between employers and individuals to work together to enable them to reach the requirements necessary. It is in the interests of both parties that time and resources are allocated fairly.
9. However there may well be barriers to achieving such a harmonious transition.
10. With pressures being placed on individuals both by the company and the regulator to reach the new qualification levels, and the ever present pressures to obtain existing target levels, the added pressures which come from this may well prove to be a difficult undertaking for some people.

Targets and Reward

11. Pay and reward packages within the finance sector are increasingly complicated. Reward systems which are based upon selling specific products or services which are linked to targets can lack transparency and may lead to situations where dysfunctional selling may occur. Knowledge of this type of reward is unlikely to provide consumers with confidence in the advice they receive.
12. Unite is aware that the FSA is working hard to reassure consumers about the costs involved in purchasing products or services through improved transparency in the charges structure, however if one product is more incentivised than another it could be argued that this product may be more likely to be recommended by some retail advisors.
13. Consumers must have confidence that the advice provided by an advisor is free from influence on incentive grounds. One way to achieve this is if the link between sales and reward is removed. Transparency in remuneration is vital to reassure consumers that the advice provided was not influenced by the sales advisor reaching target and further should be seen to be treating customers fairly. However the system must also be seen to be fair to staff.
14. Unite has called for an overhaul of the remuneration systems used in many financial firms which reward sales not service and until this takes place is calling on the industry to take account of targets in the delivery of the RDR.
15. The vast majority of finance sector remuneration and reward systems rely heavily on performance based targets and this would include those involved in retail investment. While targets remain a key performance indicator within the sector Unite is seeking clarification that companies will make adjustments to targets to compensate for additional training that is required to meet the new standards.
16. RBS has stated that it is making no adjustment to target as 'this has been taken into account when targets were set for 2010'.¹
17. Unite would welcome improved transparency in sales targets which would remove any incentive which could lead to dysfunctional selling to increase personal financial gain. Therefore the direct link between specific products and sales targets must be removed.
18. Unite submitted evidence on the RDR DP 07/1 in which we referred to the House of Commons Treasury Select Committee Report on long term savings which was published in 2004. The Report argued that a shift away from commission-based sales is likely to be a key component of any strategy to rebuild consumer confidence in the finance industry. It went on to say that as long as most selling is rewarded on commission, many consumers may remain suspicious that they are being sold a product for the wrong reason.
19. This assumption still stands today six years on. Indeed, the Which? consumer group recently published the Future of Banking report² which identified that a

¹ RBS communication with Unite

new ethical based reward culture is required in the banking sector that focuses on customer satisfaction, fair treatment and resolution of customer complaints as areas for reward. The report goes on to say:

“There should be no commission or bonuses received for selling products.”³

20. Unite contributed to the report and supports this recommendation. We also support the statement on page 7 of the report which states:

“...banks should cease rewarding frontline staff for increasing sales.

21. Unite believes that professionalism is a combination of elements of which suitable qualifications are one factor. Experience, knowledge, fairness and competence are also important features. However increasingly it could be argued that ethics is the catalyst upon which the other factors should be built and this together with suitable qualifications is the best mix to deliver a professional service.

Qualifications

22. While Unite welcomes the positive aspects of raising minimum qualification requirements we remain concerned that those presently carrying out a retail investment advisor role may be unable either through financial constraints or personal reasons to fulfil the new requirement.

23. Some firms are approaching the challenges posed by RDR very positively and fully engaging with trade unions to ensure that sufficient support is available to colleagues to reach the necessary standard required by the deadline date. However, Unite is concerned about individuals that are employed in businesses that are failing to engage with their workforce or representatives on how best to approach the proposals.

24. It is important that suitable resources including financial and study time are put in place to ensure individuals are able to obtain the necessary qualification. Unite is aware of specific concerns among members who feel considerable pressure at this stage despite the date for implementation being 27 months away.⁴

25. LBG has stated that failure to attain the required qualification will result in removal from role. In this situation Unite would wish to ensure suitable alternative redeployment opportunities are put in place in the first instance with dismissal an unsuitable outcome.

26. Unite would be keen to find out what steps are available where an individual declines to undertake the qualifications or fails one of the modules. Unite believes that re-deployment to a non-regulated role should be made an option. Formal redeployment should only become an option from 1st January 2013.

² Which? Future of Banking Commission Report 2010

³ Ibid. para 25

⁴ Anecdotal evidence from Unite members in LBG, NAG and RBS

Unite would not expect individuals to opt on to the formal redeployment process/notice period until after all informal redeployment opportunities are exhausted.

27. There is an overriding concern that employers will seek to pre-empt the de-authorisation date of 1st January 2013 of those regulated staff who have been unable to attain the relevant qualifications under RDR. This would be achieved by employers issuing an individual notice of dismissal on 1st October 2012 on the grounds of capability with no redundancy pay or later where length of service does not attract the full statutory or contractual notice period.
28. Where costs are under scrutiny this could be the route taken by some companies to avoid paying redundancy, and one which Unite would regard as fundamentally unfair given that until the 1st January 2013 all advisors without the necessary qualifications are still deemed completely compliant to undertake the role by the FSA. Unite would hope that employers undertake to consult fully with trade unions and employee representatives in the formulation of their policy on this issue.

Hidden costs

29. Finally, Unite has concerns that in the event of an individual resigning from the organisation or being dismissed through failing to meet the necessary standard, then some organisations have stated that they may reserves the right to pursue clawback on the costs of the modules which could amount to around £400 to £600 per module.
30. With many finance sector companies now undertaking personal financial checks on existing and prospective employees, unemployment and the possibility of having to repay debts to the bank could lead to further financial hardship and individuals facing an even greater challenge in gaining employment in the future, a vicious cycle could be avoided by removing the threat of clawback.

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