The struggle for a global standard

The financial crisis has intensified calls for greater regulation of the financial services industry. But some believe the task of creating a single global system for accrediting financial advisers could prove easier said than done

BY HELEN BURGGRAF

Thirty-three years ago this month, delegates attending an accounting industry symposium in Munich took the first steps towards creating a single global accounting industry body. Today the International Federation of Accountants sets standards for 158 member organisations in 123 countries and jurisdictions around the world.

But achieving a single global standard for financial advisers is looking likely to prove more difficult.

The problem, say advisers and standard-setters, is not the lack of interest in creating a single simple and trustworthy means of indicating which firms and individuals might be safely entrusted with looking after the wealth of others.

Indeed, at least five major organisations already provide such qualifications, and other entities, such as the Society of Trust & Estate Practitioners – whose members are mainly solicitors and wealth structurers rather than financial advisers – have recently begun to provide new certification aimed at the IFA sector.

Dawning realisation

Paul Stanfield, chief executive of the UK-based Federation of European Independent Financial Advisers, an IFA trade group, says this is not surprising, since there is growing recognition and acceptance of the benefits in developing "a qualification – or if necessary, a small number of qualifications" for the pan-European market at least.

This interest is being fuelled by the UK's retail distribution review (RDR), which has set new standards for IFA qualifications and transparency by January 2013. The RDR has contributed to an emerging sense in international circles that similar qualifications and high standards also might be in order sooner rather than later for advisers with UK expat clients in particular, if only because these clients are increasingly going to expect the same standards in their offshore advisers when they move abroad.

At the same time, governments in other countries are understood to be considering their own RDR-types of regulations.

Where difficulties arise in the offshore arena, though, is in the vast complexity of cross-border tax law and other components of a typical individual's personal financial situation.

This is particularly the case with individuals who may be resident in a different country from the one in which they pay tax, or were born in, or plan to retire to, financial advisers and others familiar with the situation point out – even within the European Union, where the 'passporting' across borders of some financial services is now theoretically possible.

Competency test

David Franks, chief executive of global financial advisory firm Blevins Franks, explains the problem.

"Because we are UK-regulated, our advisers must be certified by the UK Financial Services Authority," he says. "Does this mean they can go and give financial advice to expats living in France? As far as the regulator is concerned, the answer is yes, because of passporting. But are they really competent [on the basis of FSA certification] to go and give advice in France? No, not at all. Or Spain. Because what do they know about the French or Spanish tax structures? Nothing."

For Blevins Franks, the solution is a comprehensive in-house training programme developed over the 25 years the firm has been in business, with a painstakingly-maintained and updated online database to which all the firm's advisers have access. The firm also does not take on clients in countries about which it has no expertise.

"I do not think a week goes by that we do not take external legal or accounting advice in one or another jurisdiction," adds Franks, who says the company also retains five in-house tax specialists.

DeVere, too, takes training and ongoing development of its advisers seriously, according to Nigel Green, the deVere Group's chief executive, with the result that last year, the large IFA firm

IA KEY POINTS

There are numerous problems in the creation of a single set of qualifications for financial advisers. The differing tax laws and systems around the world, plus varying financial regulations, are the greatest hurdles.

However, international advisers must receive some form of training and there are many different bodies offering accreditation (see table on page 20).

The global accreditors

Body (headquarters)	website	Key Qualifications	Countries/regions covered	How qualification achieved
CFA Institute (Charlottesville, Virginia, US)	www.cfainstitute.org	Chartered Financial Analyst	Americas, Asia-Pacific, and EMEA	Lengthy self-study course, in English, followed by series of rigorous exams
Chartered Insurance Institute	www.cii.co.uk	CII Diploma in Financial Planning, Chartered Financial Planner	150 countries	Module-based course with exams
Chartered Institute for Securities & Investment (London)	www.cisi.org	Individual certificates in securities, derivatives, corp finance, investment mgt, invest admin qualification, invest advice diploma, CISI Masters in wealth Mgt, introduction to securities & invest	50 countries	Regulatory exams at the core, with optional units based on job roles; some programmes have int'l variants. Agreement to uphold a code of ethics
European Financial Planning Association (Rotterdam, Neths)	www.efpa-europe.org	EFPA Associate; EFPA European Financial Advisor; EFPA European Financial Planner	Austria, Belgium, Cyprus, Denmark, France, Italy, Ireland, UK (CII is the affiliate), Poland, Spain, Netherlands, Germany, Hungary, Czech Republic, others pending	Completion of a course; examination; mandatory two-year work experience; agreement to uphold a code of ethics
Financial Planning Standards Board (Denver, Colorado) (UK affiliate is Institute of Financial Planning)	www.fpsb.org	Certified Financial Planner	23 countries	Exam based on standard syllabus; three-year work experience; agreement to uphold a code of ethics
Institute of Financial Planning	www.financial.planning.org.uk	Certificate in Paraplanning (beginning Nov '10, UK only)		Same as above
Society of Trust & Estate Practitioners (London)	www.step.org	Code of Professional Conduct; Code of Professional Development; Financial Services Certificate (new in '10)	Global membership, mainly solicitors and wealth structurers rather than IFAs	Exams

"…we are in [the business of setting standards for financial advisers] for the same reasons – we are trying to make sure that financial planners and advisers are the best that they can be"

Michael Fawcett, chief executive, European Financial Planning Association

decided to look into developing a formal relationship with an accrediting organisation. After researching the market, it ended up becoming a member of the Chartered Institute for Securities and Investment.

Spoiled for choice

For deVere, as for many financial advisory firms these days, the choice of organisation with which to affiliate would not have been immediately obvious, given the number of institutes and boards keen to oblige.

Many individual advisers have the Financial Planning Standards Board's (FPSB) Certified Financial Planner acronym after their names, for example. When added to the initials representing their colleagues' qualifications, can result in an alphabet soup of certification within a single office.

UK- and Gibraltar-based Blacktower Financial Management promotes on its website the fact that it is among the few IFAs to enjoy 'Chartered Financial Planner status' from the Chartered Insurance Institute.

The Institute of Financial Planners of Hong Kong, meanwhile, boasts of its affiliation with the FPSB, which is based in faraway Denver, Colorado. The institute represents more than 10,000 financial planners in Hong Kong.

Principled approach

Another provider is CFA Institute, based in Virginia, whose Chartered Financial Analyst certification is one of the best-known qualifications internationally. It manages to keep its global relevance by sticking to the basic principles of portfolio management, taxation and investing, while avoiding getting into the specific laws and regulations of individual countries, explains Steve Wellard, London-based marketing and communications director for the organisation.

As part of this one-size-fits-all approach, its materials and exams are available only in English, he says. Continuing education and locally-relevant information, courses and networking are provided by "member societies", typically representative offices in the various countries that provide a range of benefits.

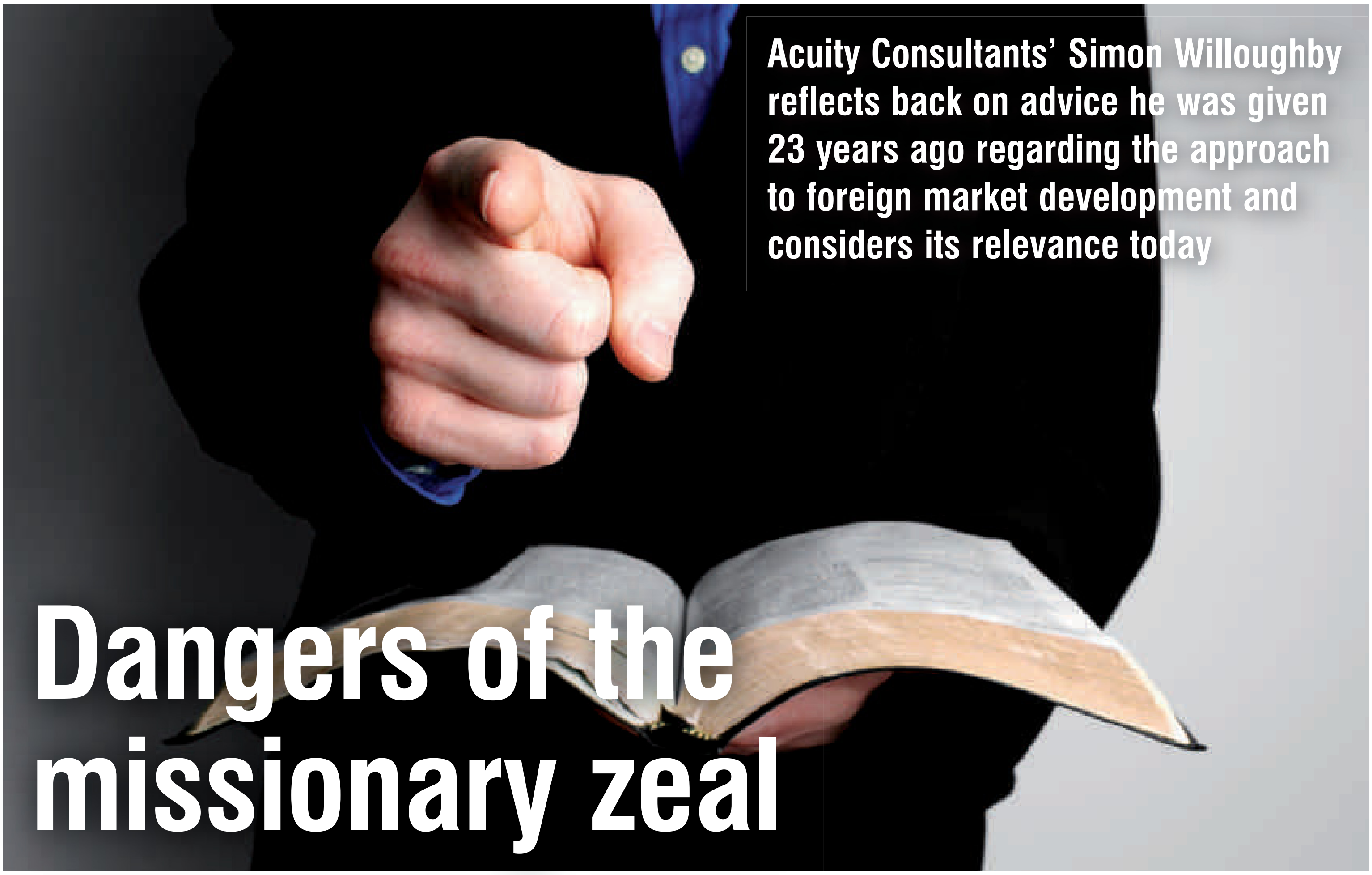
Wellard argues that the CFA Institute does not see itself as in direct competition with such other organisations, since "our remit and our membership are not as geared towards specific financial advice".

There is no question that the various organisations do see themselves in competition with some of the others, though, even if they are hesitant to admit it. Institute of Financial Planning chief executive Nick Cann, for example, points out that the FPSB's CFP certification has a competitive advantage on the international scene in being "transferable to other countries", making it "genuinely global", unlike some of its rival qualifications.

Competitive element

Michael Fawcett, chief executive of the Rotterdam-based European Financial Planning Association, admits there is an unavoidable element of competition between some of the IFA-accrediting organisations "because we are operating in the same market, and offering similar qualifications". And he concedes that, at some point, mergers or a "melding of the various qualifications" may be inevitable.

"I think that we and they understand we are in it [the business of setting standards for financial advisers] for the same reasons – we are trying to make sure that financial planners and advisers are the best that they can be. And because of this, we [also] understand that it is better to tackle the problems the industry has rather than to tackle each other." IA



Acuity Consultants' Simon Willoughby reflects back on advice he was given 23 years ago regarding the approach to foreign market development and considers its relevance today

Dangers of the missionary zeal

In the late '80s I cut my teeth in the world of international life insurance by carrying the bags of the senior executives at a major UK life office and taking minutes at their meetings as they travelled the world setting up – and ultimately managing – a collection of overseas life operations.

Sadly that company no longer exists but my bag-carrying/minute-taking experience gave me a unique insight at a relatively young age into the many issues associated with establishing businesses in foreign countries, elements of which are still relevant nearly 25 years later.

Wise words

One of my abiding memories from this time was a chance meeting at Schiphol Airport with the individual leading the expansion plans of our main competitor at that time. When it came to developing new markets, they always seemed to be two steps ahead of us and we always seemed to be playing catch-up. As a result the individual concerned became something of a mystical figure in my young mind.

So at that airport, a mixture of naivety and Dutch courage resulted in me approaching him, rather boldly, and asking what advice he would offer in relation to the development of new life markets.

He said, and I paraphrase, "Always try to judge the state of a market's development and avoid imposing 'sophisticated' home market products and practices on markets that are not ready for them" – that is, blend in with the local market and try to avoid being a missionary.

This is a sentiment many international advisers will relate to, especially if they originally learned their trade in markets such as the US, UK, Australia, South Africa or Europe before moving elsewhere.

Colonial past

Nearly a quarter of a century may have passed since then but it is fair to say that what he referred to has been the single most common and consistent failing of the cross-border sector in the intervening period. Examples of this behaviour include:

- Life companies trying to impose product structures that work well in a home market on other markets that are culturally resistant to them.
- Advisers ignoring local regulations where the rules of engagement do not fit their desired business model.
- Life offices sticking with a favoured distribution channel from a home market where the equivalent does not exist to the same level of influence or quality in an overseas market.
- Advisers selling sophisticated products such as portfolio bonds to unsophisticated investors.
- Advisers, life companies and retail banks choosing to treat expatriates as some form of third sex who are 'fair game' and to whom local regulations do not apply.

The UK may no longer have an empire but it is fair to say that over the years the approach of a number of cross-border life companies, banks and elements of the advisory community have had something of a colonial feel to them. As a number of product providers and advisers have found, this is not necessarily the best way to approach the launch of an offshore offering onto an unsuspecting local market.

Learning the lessons

To different degrees, the successful cross-border life companies and advisory firms today have been largely defined by their ability to come to terms with this issue. On the

Simon Willoughby, director, Acuity Consultants

IA KEY POINTS

Life companies must increasingly look to local rules and culture as they extend beyond traditional expat client bases.

However, globalisation is leading to a faster spreading of 'best practice' approaches globally, something that life companies must not forget when operating overseas.

one hand, a small number of life product providers have evolved to become regionally managed semi-autonomous businesses, while on the other, we have those businesses that are still centrally managed, achieving local differentiation by utilising foreign language product materials and indigenous sales staff.

Advisory businesses are more tailored to an individual market or region, although firms have emerged that are now genuinely multi-regional. Western expats still represent a key target client group for most life offices and advisers but in most cases this category of client is not as dominant as it was ten years ago.

One way or another, by strategic vision or trial and error, these businesses have evolved and have learnt to assimilate with foreign markets, albeit within niche segments of them, rather than behaving like self-righteous missionaries imposing their home market model on unsuspecting locals. The cross-border life companies and advisers that have fallen by the wayside are generally those that either did not fully embrace this point or failed to make the transition from what they knew to what was required.

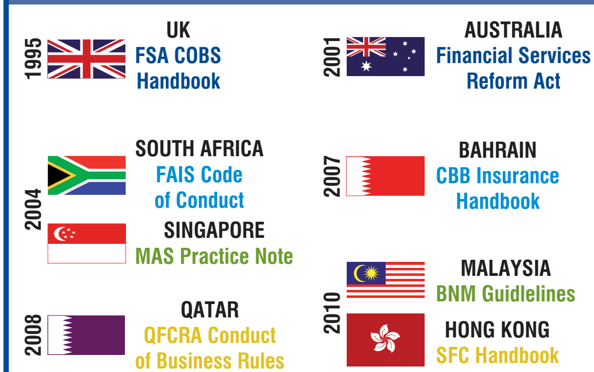
The indirect consequences of living in an increasingly globalised world are seeing some missionary-like activities making a return, most noticeably from product providers.

"It would appear a number of life insurance parent companies are now growing increasingly uncomfortable with the apparent inconsistency of operating to variable standards across different markets"

Nowhere to run

The saying 'No man is an island' increasingly applies to the ability of individual jurisdictions to isolate themselves from regulatory initiatives elsewhere in the developed world.

Mandatory commission disclosure '95 – '10



Source: Acuity Consultants

Circumventing the original European Savings Directive in 2005 was made straightforward by re-routing deposits to non-EU jurisdictions such as Singapore and Hong Kong. But since the global financial crisis of 2008, the OECD blacklisting of errant countries as part of the G20 response package ensured such inconsistency would no longer be tolerated. Suddenly there was pressure to comply with global standards rather than ignore them. Nowhere was this more evident than in the way core elements of banking secrecy crumbled so quickly in places such as Switzerland and Liechtenstein.

In addition – and often independent of these global initiatives – the financial crisis has also prompted a number of jurisdictions to review their financial regulatory and consumer protection infrastructures. This has been driven by the fall-out from specific developments such as the Lehman mini-bonds scandal but some jurisdictions have also acted out of fear of being targeted as the lowest regulatory denominator. These features are certainly evident in the changes currently being implemented in several markets in Asia Pacific and being considered by regulators in the Middle East.

Missionary within

The larger global life insurers, mainly of US origin, have had some success in imposing their home market products and business models on underdeveloped foreign markets, most notably in southeast Asia. Although they threw money at making their models work in these markets, creating in the process a life insurance culture where one did not previously exist, they never tried to impose US regulatory standards in the same way.

It would appear a number of life parent firms are now growing increasingly uncomfortable with the apparent inconsistency of operating to variable standards across different markets. They are seeking to influence the strategy of their sister life companies, challenging them to roll out principles such as 'treating customers fairly' beyond its jurisdictional boundaries, although as yet there is little evidence of this translating into actions that are distinct from those in the local market.

So is the missionary is in danger of returning?

In our increasingly globalised and interconnected world, should life insurance groups be taking more affirmative action in rolling-out what they consider to be 'best practice' in all its markets? If this were to occur, what should be the response of international advisory businesses?

The answer is surely the same as the advice I received at Schiphol Airport in 1987 – you should try to use all your market knowledge and blend it with what you find locally, avoiding the temptation to impose a uniform global standard that is potentially insensitive to the stage of an individual market's regulatory and product development.

Whirlwind change

Globalisation is undoubtedly a factor in the process of regulatory and product development in a way it was not ten years ago. But while the bar will be raised in terms of base levels of consumer protection regulation, the main impact of these global influences is likely to be seen in the increasing speed at which changes will take place rather than the emergence of some global 'one-size-fits-all' standard.

Changes will occur more rapidly across all markets and any competitive advantage from regulatory arbitrage for both advisers and product providers will be more short-lived. Individual life markets will continue to develop at different speeds, and missionary zeal on the part of life offices or advisers alone will not change this fact.

After all, surely it is better for a missionary to persuade and convince the natives of his more enlightened approach than to get eaten by them. IA