THE IFA's Wealth Gram

LA TRIBUNE MENSUELLE DES MEMBRES DU GSCGI
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LES MEMBRES DU GSCGI

Networking & la Vie de nos Collègues d'ailleurs

FECIF informs...

David Charlet
FECIF's
Chairman of the Board
www.fecif.org
** * **

Vincent J. Derudder
Honorary Chairman and President of the Consultative Committee
** * **

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Fédération Européenne des Conseils et Intermédiaires Financiers

** * **
The GSCGI is a Board member

The IFA message to European Regulators

FECIF *(Fédération Européenne des Conseils et Intermédaires Financiers)* is the main organization representing IFAs and Intermediaries in Banking, Life Insurance and Financial Affairs. FECIF represents a large number of professionals across Europe. Its members *(trade associations, financial companies and individuals)* are involved in the major European financial markets. The number of FECIF members has been growing year on year, therefore confirming FECIF's core role of defending the interests of the IFA sector within the financial services industry. During the 15 years of its existence, FECIF has regularly met with EU-MEPs to discuss all major issues.

On December 3rd, 2014, FECIF gathered in Brussels for a one-day conference addressing the challenges ahead for European IFA *(please see the programme below)*. In their opening address, both **David CHARLET** *(FECIF Chairman and Head of ANACOFI in France)* and **Johannes MUSCHIK** *(FECIF Deputy Chairman and Head of AFPA in Austria)* focused on how the Financial Services industry has evolved since 2008 to the present day. In terms of its size, the industry encompassed approximately 700,000 companies and 500,000 individuals, as well as an estimated 2 million back-office employees, incorporating the administrative segment of the European financial services industry. The UK, Scandinavia and Benelux clearly led the "distribution through intermediaries" sector across Europe, as opposed to Portugal and Greece where the industry is much less developed. In 2013, there were 30 trade associations across Europe, spread across 20 countries. However, under the weight of increasing regulation, the industry has contracted quite substantially in many formerly important markets for intermediaries. **David CHARLET** disclosed the preliminary results of a major new pan-

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Programme:

12h30 - 14h00	Lunch sponsored by MIM3
14h15 - 14h30	Welcome speech - **David CHARLET**, ANACOFI/Fra, Chairman of FECIF **Johannes MUSCHIK**, AFPA/Austria, Deputy Chairman of FECIF
14h30 - 15h30	Round Table - *New regulation: good news or over-regulation?* Moderator: **Paul STANFIELD** (FEIFA/UK, Secretary General of FECIF) **Vania FRANCESCHELLI** (ANASF/Italy); **Stéphane FANTUZ** (CNCIF/France); **Martin KLEIN** (VOTUM/Germany); 1 **representative** from Tocqueville Finance SA.
15h30 - 15h50	**Guillaume PRACHE**, Managing Director – Better Finance for All
15h50 - 16h15	**David COWAN**, Co-ordinator, Consumer Protection and Financial Innovation team - EIOPA
16h15 - 16h40	Break
16h40 -17h00	**Garry HEATH**, Consultant - Special Risk Bureau Insurance
17h00 – 17h20	**Yves NIDEGGER**, National Council Member (Geneva) - Swiss Parliament
17h20 - 18h30	Round Table - *What and who are Financial Advisers and Planners? We are not illusions – Why are we valuable to individual consumers and society?* Moderator: **Vincent DERUDDER** (Honorary Chairman of FECIF) **Arcadi ORRIT** (AIF/Spain), **Marc VAEL** (BZB/Belgium), **Jiri SINDELAR** (USF/Czech Rep), **Jean-Pierre DIESERENS** (CIFA/Switzerland) and **Patrick Le JUSTE** (CEO of MIM3).
18h30 - 18h45	Witnesses points of view **Axel RASON** CEO of UPSIDEO ITT supplier / **Michael LODHI** CEO of The Spectrum IFA Group
18h45 - 19h00	Questions and Conclusions: FECIF's wishes **David CHARLET**, Chairman
19h45 - 23h00	CONFEDERATION DINNER sponsored by

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...cont'd on page 7

LES MEMBRES DU GSCGI

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FECIF informs...

European survey being conducted by FECIF. Considering that Germany, France and the UK combined have more than 400 000 intermediaries, the survey could infer that in 2014 the overall number of IFAs increased as compared to 2008. Nevetheless, a more realistic assumption would be to consider that the industry might have contracted by approximately one third of its 2008 reported size especially in two or three major markets *(the UK and the Netherlands)*. Another insightful aspect emerged from the survey: two primary categories of professionals *(brokers/advisors and agents)* concentrated in specific countries. FECIF is presently finalizing the research for this survey, the results of which are expected to bring a clear vision of the current industry situation.

Johannes MUSCHIK stressed that, when the European Financial Services Action Plan was first launched in May 1999, its main goal was to "make regulation easier for private investors". Fifteen years later, the required paperwork has multiplied significantly, making financial intermediaries, and also their customers as well, struggle under the weight of regulation. Inevitably, the supply of financial instruments has shrunk in countries where heavy regulation is the "rule", affecting financial intermediaries and their clients. Hence, how is the industry going to ensure that customers' savings will be safely invested and well looked after under these circumstances? If legislators and regulators continue to lean on big banks and other large financial institutions, they must be held accountable for having let the "too big to fail" systemic risk expand without preserving investors' interest.

During the first panel, moderated by **Paul STANFIELD** *(FEIFA/ Secretary General of FECIF/UK)* and consisting of **Vania FRANCESCHELLI** *(ANASF/Italy)*, **Stéphane FANTUZ** *(CNCIF/France)*, **Martin KLEIN** *(VOTUM/Germany)*, and **Eric TAJCHMAN** *(Tocqueville Finance SA)*, there was a focus on new regulation and the principle of "independency" as it applies to financial intermediaries was raised. Since MiFID II is about ensuring investor protection, commissions or inducements from third parties are called into question. Banning commissions/inducements *(as in the UK and the Netherlands)* would, undoubtedly, threaten the current IFAs business model *(focused on the distribution of financial products)*. If no longer viable, and should ESMA continue to push forward with this issue, then financial intermediaries will need to build a new business model. Fees charged to the final investor will surge in a new business model framework. As a consequence, fewer customers will be able to afford the higher cost of financial advice at a time when they need it most, particularly considering that central banks are currently keeping the interest rate pedal pressed to the floor. Several surveys run by different bodies, either regionally or globally, have revealed that the number of financial intermediaries has diminished substantially after the introduction of heavier regulation. Surveys also uncovered that only "wealthy" investors would accept to be charged a fee for financial advice. Therefore, heavier regulation and a ban on commissions/inducements are definitely unwelcome not only for the damage they would cause to the financial services industry as a whole, but also to the final investors' wellbeing as well. As new trends develop at the global level, IFAs will need to embrace change and adjust their business model.

David COWAN *(Coordinator, Consumer Protection and Financial Innovation team - EIOPA)* focused his presentation on consumer protection regarding insurance distribution and EIOPA's role. For the time being, the industry is being mainly supervised at the national level. EIOPA must promote greater transparency, simplicity and fairness for consumer products/services, but its role might need to evolve towards: (a) issuing warnings where a product poses a serious threat, and (b) temporarily banning certain types of products. A further push to prevent regulatory arbitrage and promote equal conditions of competition was mentioned by Mr. Cowan.

Supervision is facing all sorts of obstacles, due to the wide diversity of intermediaries *(not enough consolidation has occurred yet across the industry)* and no direct control possible over IFAs. Forthcoming new legislation "IMD 1.5", aimed at tackling conflicts of interest inherent to "Insurance-Based Investment Products" (IBIPs), will go through a two-phased consultation process and might be delivered for technical advice to COM in February 2015. Regarding IMD2 *(or IDD)* expected to be finalized by summer 2015, COM called in July 2012 for a "mandatory disclosure of the full amount of remuneration after a 5-year transitional period", while European Parliament (EP) amendments of February 2014 also required the disclosure of the source of remuneration *(commissions/inducements)*. Equally interesting is that, according to the EP, tying practices are not explicitly banned and multi-risk policies would be allowed. Overall, EIOPA views "supervisable ethical conduct" as important as continuous training of intermediaries. Mr. Cowan stressed as well the need for a "level playing field" between intermediaries and the staff of insurers within a harmonized

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FECIF informs...

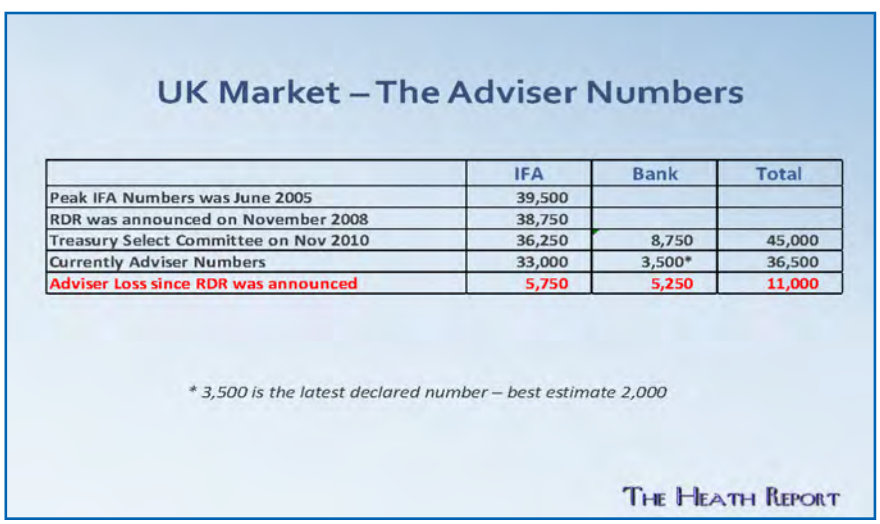
approach to avoid market fragmentation. Currently, EIOPA is focusing on strengthening process controls by manufacturers before product launch with the "Guidelines on Product Oversight & Governance by Insurers", a public consultation that runs until 23rd January 2015. The next step is expected to focus on distributors.

The automatic exchange of information between national fiscal authorities across the globe was approached by **Yves NIDEGGER** *(National Council Member, Swiss Parliament),* who candidly admitted that, compared to five years ago, the Swiss perspective has morphed quite dramatically. In 2009 *(March 13th)*, Mr. Hans-Rudolf Merz *(then President of the Swiss Confederation and Head of the Federal Department of Finance),* bowing to international *(G-20)* pressure to loosen banking secrecy rules to help other nations fight tax evasion, pledged that Switzerland would ***"accept the standards of the Organization for Economic Cooperation and Development (OECD) on administrative assistance on tax matters"***. By doing so, there was no longer a difference between tax evasion and tax fraud and "de-facto" Swiss law became inapplicable on Swiss territory. Incidentally, Mr. Merz resigned in October 2010. Then, Swiss bankers designed the "RUBIK" system, negotiated with the UK, Austria and Germany, in order to maintain what was still left of the "banking secrecy" *(preserving customers' identity)* and involving the bulk transfer of taxes due to foreign countries and collected by Swiss banks. Eventually the system failed, especially when international pressure to move faster took hold,due to the US-FATCA legislation and the wider automatic exchange of information system.

How then to ensure protection of individual rights at the national level when the exchange of information becomes automatic? When information was released only based on specific and motivated demands, there was room for defense. To the contrary, whenever there is "automatic" transfer of information, the individual involved cannot even be informed, according to the law as currently drafted. As a consequence, the individual would have no way of defending his or her own rights.

The Swiss Minister of Finance, Ms. Eveline Widmer-Schlumpf, has put a lot of pressure on Parliament members to have the new law implemented on time to start collecting data from January 2017 onward for delivery to relevant countries beginning in January 2018. Apparently, the multilateral approach is favored, instead of bilateral agreements, since it could speed up the whole legislative process and ensure a timely implementation of the new law. More generally, Yves Nidegger pointed to the major changes emerging within our countries and especially to the fact that instead of encouraging wealth creation, the administrations *(civil servants)* in power are focusing on tax collection. In conclusion, he said ...***If tax collectors make up the political culture, one has to worry!***

An insightful presentation on the impact of RDR on the UK market by **Garry HEATH** *(Consultant - Special Risk Bureau Insurance - Editor of "The Heath Report" which explains the dangers of the Retail Distribution Review to UK consumers)* attracted the attnetion of the audience. In short, RDR banned commissions and allowed no grand-fathering for experienced advisers. Essentially, the regulator presumes to decide how a consumer pays for advice and service. The impact on the industry has been quite dramatic as highlighted in the slides. Garry Heath went on to say that, in the four years since RDR became a reality, more than 11,000 UK advisers have exited the industry and, as a result, 11 million consumers have lost their advisers. Moreover, another 8 million consumers are in danger of losing their adviser. RDR definitely attacks the least financially astute consumer by denying them commission as method of payment! Equally worrisome is the increasing interference of the regulator in the client/adviser relationship. Increased regulation is not only costly to the ***"voiceless consumers in whose name the regulator acts, but for whom no protection is offered"*** affirmed Garry Heath.


UK Market – The Adviser Numbers

	IFA	Bank	Total
Peak IFA Numbers was June 2005	39,500		
RDR was announced on November 2008	38,750		
Treasury Select Committee on Nov 2010	36,250	8,750	45,000
Currently Adviser Numbers	33,000	3,500*	36,500
Adviser Loss since RDR was announced	5,750	5,250	11,000

* 3,500 is the latest declared number – best estimate 2,000

The Heath Report

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UK Market – Total Consumer Numbers

	IFA Advisers	Bank Advisers	Total
UK Working/Retired Population			40m
Pre - RDR Consumers Numbers	16m	7m	23m
Less - Best Estimate of Disenfranchised Clients	5.2m	5.8m	11m
Current maximum Consumer Totals	10.8m	2.8m	13.6m
If THR numbers prove correct	-6.8m	-1.5m	-8.3m
Final Numbers	4m	1.3m	5.3m

An overall drop in adviser capacity of 77%

THE HEATH REPORT

While pointing to the lack of "level playing field" which is particularly worrisome, Garry Heath looked at increased regulation as a "disguised" nationalization of financial services by left wing politicians and ***...managed by bankers for the benefit of the big battalions eternally attacking the small players"***. No better lessons come from Brussels nowadays. Large scale regulation is inevitable and ***...IFAs will continue to be in a perpetual war with the bigger players (banks and insurance companies) whether they want it or not***. He recommended that IFA representations play to their strengths by in particular including clients and consumers. ***Apathy is the worst attitude for advisers and consumers*** ...he added, in clearly stressing that a financial services market dominated by the big players is definitely not in the consumers' interest.

Guillaume PRACHE, representing the European Consumers Federation for Financial Services **'Better Finance for All'** wanted to provide an insight of what the situation is like on the other side of the river, in "Consumer Land". The purpose of this being to establish a better understanding of the issues they're coping with and foster dialogue with the Financial Intermediaries Federation. A common challenge for the consumer and financial intermediary organizations is to find a way to rebuild trust in retail investments. Too often individual investors are provided with underperforming investments. The real returns, after inflation and in terms of purchasing power, for long-term savings and pensions, are in negative territory. Returns on bank accounts are worse. Both consumers and insurance companies in the financial industry are even often forced into investing in products that are inevitably losing money such as government bonds which, using the correct terminology, is called financial repression.

The quality of the information given to the consumer is not improving, it is regressing. Recently it was decided by Parliament that all data on past performance compared to benchmarks no longer needs to be part of the disclosure regime (PRIPs/KIIDs). Hence, investors will no longer be informed of how well or how badly an investment product has performed. The priority for the consumer is to have unbiased and cost efficient advice which doesn't mean that the banks are offering more cost efficient products with better returns. A perfect example of this is the Nr 1 capital guaranteed life insurance product in France *(Fonds en EUR)* which in 2013 had a nominal rate of return of 2.6% via bank agents' distribution and an average of 3.3% on the IFA network distribution side. Take away the Financial Intermediary channel and the consumer will have no other choice than to live with the lower end of the return scale, the 2.6%.

Guillaume Prache concluded that commissions are by nature a risk for conflict of interest, which however doesn't imply we should be banning all commissions and kill the multi-product advisor who can give access to better performing products bearing in mind that it's not always the biggest fund that gives the highest returns. Taking reality into account, the banks will not engage in open architecture, they will be promoting their own products in their own interest. Let's keep the dialogue between consumer and financial advisor open and let's hope ESMA will think twice before putting in place inefficient regulations.

Finally, the topic for the round table discussion, moderated by **Vincent J. DERUDDER** *(Founder, Honorary Chairman of FECIF, and President of the Consultative Committee)* was to define the value of the Financial Advisor and Financial Planner to individual consumers and society. The panel consisting of **Arcadi ORRIT** *(AIF/Spain)*, **Marc VAEL** *(BZB/Belgium)*, **Jiri SINDELAR** *(USF/Czech Rep)*, **Jean-Pierre DISERENS** *(Secretary General of CIFA Switzerland, an NGO with special consultative status at the UN-ECOSOC in New York)* and **Patrick Le JUSTE** *(CEO of MIM3, Money in Motion, an asset management company in Luxembourg)* was asked to lend their opinions and suggestions on the subject. In his opening words, Vincent Derudder reminded us of what FECIF was all

FECIF informs...

about, when launched 15 years ago, and how its objectives have evolved. At the start, the goal of the EU commission was to enlarge the single market, to organize a harmonization amongst the EU members and to facilitate cross border business between member states. Then, suddenly, a tsunami of regulations came upon us and FECIF was forced into the role of advocating the interests of IFAs. The UK RDR was considered to be the model for wider European regulation, without really weighing up any serious consequences this could bring about. Looking at other sectors, there is ***Not One*** that dictates how people should be remunerated, except in the financial industry - and the worst fact is that for the financial sector, the remuneration for people in the financial industry is being decided by a couple of guys in Brussels, Frankfurt and London.

Looking at the situation in Spain, in Arcadi Orrit's view, the regulation has been beneficial. Some 7 to 8 years ago anyone could be an IFA in Spain which was a rather dangerous situation. Today, with investment advice being recognized and IFAs officially registered, the consumer has an enhanced protection and the quality of the advisor has improved. Profiling the IFA profession versus the banks, the IFA has a much more dynamic, independent and personalized approach. As far as clients are concerned, who cannot afford Financial Advice, the IFA can delegate some services to the Association at reduced cost.

From the point of view of an asset manager and financial engineering platform in Luxembourg, Patrick Le Juste considers the EU market to offer advantages. The main reason for moving the MIM3 headquarters from Geneva to Luxembourg was to have better access to the EU market by means of the European passport. He considers IFAs to be highly important in developing the asset management business and he understands that the new regulations have limited the positive effect on the industry. Unfortunately, whether we like it or not, we'll have to adjust the sails and probably come up with a new model. Looking at the reaction of the asset management sector in the Netherlands following RDR-type rules, the management fees have been increased by "times two", and sometimes "times three". Patrick Le Juste hopes that regulators can somehow come to their senses and review the situation.

Considering that the Czech Republic is a rather young market, according to Jiri SINDELAR, the IFA profession is still looking promising. Two out of three new insurance contracts in the Czech Republic come through IFAs. The fact that there is commission cap protects the clients and is no hurdle to IFA businesses. Even though a young market, the Czech Republic has adapted rapidly due to the fact that the supply chain has changed. Most IFAs are switching to a higher added value for the consumers. As the EU is taking on a bigger role, increasing its footprint in the market, it was important to link forces and join FECIF.

Jean-Pierre DISERENS surprisingly *(or less surprising for those who know Jean-Pierre)* did not want to talk about IFAs. He wanted to give the audience a feel of where the world today is going wrong and where we could be going from here. People who need to structure their retirement have to be concerned about how the world is looking at the future, in the light of the Bretton Woods institution that was set up after WWII, giving some significant advantages to those who, in first place, wanted WWII; advantages that today are no longer justified. The monetary aspects, represented by currencies which are merely a piece of paper with ink on it but endorsing considerable political power, grant outrageous powers to those who are plainly broke. A rebalance will be needed and that rebalance will be made by taking the money where the money is needed. Making everyone transparent is the road to expropriation and henceforth rebalance. In other words, a new Bretton Woods agreement and a new system in which the client will be the victim. Seeing this happen in its back yard, the European population however is lame and doesn't raise its voice. It didn't at the time and it doesn't now. What Jean-Pierre DISERENS considers to be the most important thing is to protect clients and therefore, this time round, we need to speak up.

Mark VAEL, representing BZB *(a trade association in Belgium, having 1600 members representing 3000 IFAs in the Flemish part of the country)*, did want to emphasize the ongoing need for IFAs and why they bring value to the individual consumer. A survey in Belgium resulted in 69% of consumers answering positively to the question of whether advisers add value with regards to insurances services. The added value resulted mainly from the personal relationship with the IFA and the good and clear advice clients receive, not only in the process of setting up the relationship but also for the after-sales services. Human contact is a justification for turning to IFAs as opposed to institutions, where the justification merely lies in the fascination with the name along with the feeling of a certain security. Marc Vael could only conclude from this that there still is a bright future for the IFA.

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FECIF informs...

Vincent DERUDDER's closing question to the panel referred to how they felt about transparency and disclosure of remuneration as well as disclosure of the client's personal information, which will end up with the tax man. Arcadi Orrit feels that clients should not have a problem with this provided that the IFA makes the client aware that disclosure is imposed on them by the Supervisor. For Patrick Le Juste, on the other hand, this was "THE" question of the day: the hurdles posed by disclosure, giving up confidentiality and being prepared to be fully transparent. There is no solution at hand and we'll need to wait and see where the new regulations will really lead us. He hopes that an association like FECIF can prevent or limit a "wild-growing" of regulations but whatever the results are, we'll need to cope and live with the outcome, whether we want it or not. The only solution according to Patrick Le Juste is to use a model that might solve overregulated scenarios. Jiri SINDELAR stated that no one can object to fair disclosure using appropriate measures on commissions and remunerations. As currently there is no appropriate capital available in the Czech Republic, tax transparency will in no way solve tax issues. Hence, the number of customers this would involve in the Czech Republic would be rather small. To Jean-Pierre DISERENS, transparency is going to be a choice. A choice for the clients as to where they are taking their wealth considering that there are still 141 countries in the world that continue to value sovereign rights. That, however, leaves behind the middle-class, the people who do not have much of a choice and who are going to be hit hardest by means of expropriation or, in other words, who will be walking the streets naked. The logic in all this is missing. Mark Vael's opinion was entirely in line with Mr. Diserens' opinion and further pointed out that politicians don't see the difference between an entrepreneur and a criminal. The findings of the Heath Report clearly show that advisors will be having more of a social role considering smaller clients and their lack of access to financial advice. Banning commissions will lead to the same results as the Heath Report. With far too much disclosure imposed, regulators forget what the real importance is: they see where the big money is however they don't take into consideration how that money was earned. All Panel Members remain, however, optimistic on the future even though we are on the cross-roads of change. As Marc Vael put it, the biggest challenge today is not the changes, rather the speed of change. That, along with the digital evolution, is what we need to deal with.

To conclude, David CHARLET reminded the audience that the legislators dictating rules for our industry are politicians and civil servants, whose role is to represent citizens and their interests *(develop rather than destroy the profession)*. While we still have many things to worry about, it is not yet too late to correct matters. David Charlet is proud to represent our industry, which was able to adapt to numerous New Directives and texts, even totally transform its business model in less than 10 years for the benefit of our clients.

On that optimistic note, we wish you all a very optimistic 2015. May we all continue, together, to defend the values we stand for, in good health and prosperity.

Diane JACOBS
Nucleus (Holdings) SCA — www.nucleus.lu — djb@nucleus.lu
MIM3 Luxembourg SA — www.mim3.lu — diane.jacobs@mim3.lu

Cosima F. BARONE
FINARC SA — c.barone@finarc.ch — www.finarc.ch
GSCGI — cfb@gscgi.ch — www.gscgi.ch