

Austria

Status 09-2009

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Status of IFA market

Due to the Austrian Securities Supervision Act since 1999 IFA in Austria work under liability and supervision of security companies licensed by the FMA. In the years of the booming financial markets more than 7000 IFA sold investment products for 330 registered security companies. According to the Austrian Trade Act they are “Financial Adviser Assistants”. Until today these Assistants do neither require any financial education nor an examination of professional skills. A “Financial Adviser Assistant” is permitted to sell for more than one security company at the same time.

As a result of the financial crisis and fraudulent practice of product providers such as banks, asset managers and real estate funds hundreds of thousands private and institutional investors lost up to 90% of their investment. The average loss in equity linked life insurance is 50%. Consumer protection groups brought in class action against banks, insurance companies, security companies, IFAs and in addition claim liability of the Austrian Republic for the damage which is to a high degree the result of non existent supervision by the regulator. Total new sales of securities is currently at 20% of the level of 2008.

The Austrian Government stopped “Financial Adviser Assistants” in the meantime. Beginning in Spring 2010 the trade is linked to an examination as “Security Agent”. There will be a period of max. two years for assistants to pass the exam otherwise they lose their trade. Foreseeing the new regulation in June 2009 the banks secured the right for their employees to sell investments without any vocational training just in time.

Challenges of IFA

- a) Deficits in know-how and expert knowledge;
- b) No marketing, no sales competence;
- c) Deficits in entrepreneur skills;
- d) Bad image;
- e) They relied on investments as the one and only income generator, now they have no financial reserves to develop a new business model;
- f) Their USP was always the “product”, not their “service”. Now they do not know e.g. how to argue fees for their advice because customers got used to “free service”.

Market trends

Customers look out for simplicity, transparency and quality. Simplicity means, that clients understand what they buy. Quality means the correlation between promise and result. Security is most important, capital must not be lost.

Still there will be a smaller group of speculators who buy more risky products.

Packaged retail investments such as equity linked life insurance with guarantee and option to switch into cash are first choice of customers.

Wealthy clients might take the risk to get back to “long” strategy and alternative investments.

Consequences

1. **Less IFA make more business.** Until August 2009 30% of IFA quitted. The trade associations are expecting another 30% minus in memberships till the end of 2010. From 330 security companies 220 either lost their license or closed business. Those security firms which are still on the market in July 2009 acquired nearly the same new business volume as they did in June 2008.
2. **Clients are cautious and expect high professional service.** The main challenge for IFA is to regain trust and confidence of their customers who sometimes do not believe in guarantee products any more. Bank deposits and government bonds are their first choice.
3. **Regulation becomes stringent and covers daily business of IFA.** The FMA announced to control at least 100 IFA per month. The regulator investigates private customers evaluating what kind of products they bought and how they were sold. IFA without IT and organisational resources are not able to do their business any more.
4. **Sales returns back to basic needs of customers.** It is not important to argue with performance, customers simply want to be sure not to loose their money and to get a little more profit than inflation.
5. **IFA by necessary resources from financial providers.** Operating as a single IFA is not possible any more. Compliance, administration, liability and IT are provided by a few platforms, so called “financial providers” which very soon will rule the market.
6. **Insurance will boom the next years:** Those IFA who are still operating switch their investment business to life insurance and set up sales divisions for general insurance to compensate volume losses.

Austrian IFA and their approach to EU

There is no awareness among Austrian IFA about the importance of networking with EU lobbying groups and associations from other member states. Only two trade bodies (of 30) have become members of EU organisations so far. IFA in the Vienna Chamber of Commerce joined CIFA. Insurance agents in the Vienna Chamber of Commerce joined FECIF. On the other side the Austrian Insurance Association and the Bankers Association are well connected throughout EU and experienced in using their consistent know-how advantage for their own purpose.

Relevant players on behalf of IFA are:

- Insurance Agents: 8.000 active members in 9 national and 1 federal trade bodies.
- Insurance Brokers: 3.000 active members in 9 national and 1 federal trade bodies.
- Independent Financial Advisers: 8.000 active members in 9 national and 1 federal trade bodies.

Due to the extent of federalism today it is impossible to unite 27 national and 3 federal bodies for a joint "Austrian" statement to EU politics.

New approach for a FECIF EU Panel in Austria

Key Persons of the relevant parties found an "EU Panel" for the Austrian Intermediaries working outside of the chamber of commerce and outside of any political party. Delegates from the trade bodies meet regularly to discuss current matters of interest for IFA, brokers and agents. They collect different points of views and resume to a joint "Austrian" statement. Some of them are involved in EU trade affairs within the Austrian Chamber of Commerce. They might argue, that it might not be necessary to join an European network because they are integrated in the information flow of the chamber. But when trade associations get information from the government nothing can be influenced any more on the European Level. They get the enacted European Directive to transpose it into national law while the Bankers and Insurance Association had the chance to influence the directive or the EU decision (hearings, consultations) before. This is to my opinion the main advantage of joining FECIF EU Panel Austria. Trade bodies will profit enormously by getting unfiltered information from EU first and not through the official channels.

Concerning Status of FECIF International

FECIF has reached status of a well known and reliable lobbying group during their 10 years of existence. For their members FECIF is a Nr. 1 information crossing and the unique opportunity to be present at EU consultations at an eye to eye level with the representatives of the industry and relevant EU politicians.

Problems of FECIF are:

- low level of awareness of importance of EU politics for the daily business of IFA in the EU member states;
- low level of engagement among FECIF members; few persons are doing all the work so far. The operative basis is too small for a huge impact which would be necessary.
- lack of personal resources in the field of EU law and communication.

Future objectives for FECIF International

- a) Preprocess EU topics and chunk them down to a level of less complexity so that FECIF members do not have to read through hundreds of pages of legal register. They want to give their statements to preselected points of common interest very quickly. Requests should be well prepared by a lawyer familiar with financial market jurisdiction and EU realities who reads through EU papers first, makes an excerpt with comments on critical points and sends this to the members for their feedback. This will increase the exchange of views, experiences and suggestions to relevant EU topics.
- b) Intensify networking among and between the members through the use of electronic media such as web-conferences, web-surveys, internet data bases and knowledge management, e-learning. Success of FECIF as a strong voice for the independent intermediaries becomes very much a question of professional communication. Personal and financial resources of FECIF representatives are limited. Therefore extensive travelling should be reduced to a minimum. At the same time the amount of work will increase. This only can be settled by using electronic networking tools. FECIF needs a person in charge for communication devices and topics responsible for
 - evaluating hard- and software for the purpose of FECIF members;
 - preparing a business plan for the implementation and running of a professional FECIF communication solution;
 - implementing, testing and servicing hard- and software communication devices;
 - training those persons working with the various tools;
 - moderating and partly initiating web-conferences, consultation processes, web-surveys and knowledge data bases.

FECIF has to reserve an annual budget for their communication activities which at least covers the costs of hard- and software and professional staff necessary.

- c) Reshape the profile of FECIF. The main purpose of the organisation is:
- lobbying the directives
 - helping the local regulators
 - supporting promotion of the role of IFA
 - recommending procedures for daily business of IFA
 - collecting IFA relevant data for the industry

Promotion of new members should focus on these services as USP of FECIF.

- d) Support member organisations to broaden their basis for consultations among their physical members, eg through annual “EU conference days” where FECIF representatives meet with local players. Implementation of local chapters in form of EU Panels to unite relevant national decision makers outside of political parties and daily quarrelling.
- e) Support the members with detailed recommendations from an European perspective how to cope with current political and market driven challenges such as education, regulation, compliance, etc.