

IGIDR Roundtable agenda for *Financial Services and Products Advisory and Distribution Regulation*

Venue: Grand Hyatt, Bombay

October 13, 2011

1 Background

In India, financial products fall under one of the four regulators: the RBI, SEBI, IRDA and PFRDA. While the sale of financial products falls under the respective regulator, the implicit investment advice that accompanies such a sale, falls in between the four regulators, and is not a regulated activity. The conflict of interest that arises when a distributor is simultaneously an agent of the provider and the customer may not be a problem by itself, but becomes a cause for concern when instances of mis-selling begin to get noticed, but remain unresolved owing to regulatory gaps.

These problems suggest that it is optimal to segregate product distribution from investment advice. While regulation of product distribution can be left to the respective product regulators, investment advice needs unified regulation. Towards this goal, this round-table will discuss two broad issues:

- A framework for developing a market for holistic advice.
- A framework for developing solutions within the existing regulatory set-up to ensure better distribution practices.

The framework proposes the establishment of a *statutory body* by the name ‘Institute of Financial Advisers’. It is proposed that this Institute be responsible for regulation and development of the profession of financial advisers, and that it’s be managed by a Council comprising of the representatives of all the stakeholders. In this case, the stakeholders are the MOF, RBI, SEBI, IRDA, PFRDA and the financial advisers.

It is proposed that the Institute have two broad categories of activities, namely, (a) development of appropriate courses which a person must complete to be eligible for registration as financial adviser, and (b) registration and regulation of financial advisers. In addition,

the institute is proposed to provide continuing professional education to update the knowledge of financial advisers and exercise oversight over them to ensure orderly growth of the responsible profession.

The proposed statute prescribes eligibility criteria to become a financial adviser; the process of registration as financial adviser; the conditions of registration; general obligations of a financial adviser; the disciplinary actions that can be taken by the Institute in case of any misconduct of a financial adviser; provisions of appeal; redressal of grievances of clients, etc. This framework aims to ensure a vibrant group of professionals who can render competent financial advice.

To ensure that distribution is separate from advice, the framework suggests that agents of a product provider may not be allowed to give holistic advice. They may only be sales agents of a particular product provider and get remunerated by the same. This implies that an agent will have to be *tied* to a product provider, as there cannot be any conflict of interest amongst the various products that he sells. The idea is to make distributors follow stricter guidelines on disclosures, and be subject to higher standards for grievance redressal.

Both these proposals call for an understanding among the regulators to develop a joint platform to promote the development of the IFA and to ensure a more co-ordinated approach in regulating distributors.

2 Agenda

- 10:00 – 10:45 An overview of advice and distribution of financial services
Renuka Sane, *IGIDR*
- 10:45 – 11:20 Financial Advisors Bill, 2011
M. S. Sahoo
- 11:20 – 12:00 Implications for current practices: Practitioner Panel
K. N. Vaidyanathan
Uma Shashikant, *CIEL*
Gautam Bhardwaj, *IIMPS*
Jayanth Srinivasan, *IFMR*
- 12:00 – 13:00 Discussion
- 13:00 – 14:00 Lunch