

The RDR's proposals proved to be an emotive subject, as advisers investigated going fees-only

Taking the FSA to task

If there is one topic that is sure to get advisers seeing red at the moment, it has got to be the retail distribution review. The review, launched by the FSA in June 2006, will be the biggest ever shake-up in the way consumers are advised on and sold financial products.

But it has been slated in some corners of the financial sector, with advisers and providers alike calling for clarification on a variety of issues.

The review will force advisers to offer to charge their clients by fees, rather than commission, under which they take payments for their advice as a proportion of a client's investment.

There are plans to increase the standards of advisers calling themselves independent.

In addition, the FSA proposals call for advisers to sit a series of specific qualifications before interacting with consumers.

The RDR debate was raging at the FT Intermediary Forum, held at London's Cumberland Hotel on Tuesday 10 November.

Heading up roundtable sessions on the issue was Scottish Widows' head of distribution development Robert Kerr, the group's resident RDR expert.

He says one of the biggest sticking points in the proposals is the definition of an "independent" adviser.

Under the FSA plans – firmed up in a consultation paper issued in June and set to become set in stone at the end of 2012 – there will be separate categories for independent, restricted and non-advised sales.

To call themselves independent, advisers will have to be familiar with a broad spectrum of product types, in order for them to be unbiased and

unrestricted. He said the definition of independence was something that is going to be very difficult to achieve going forward.

That's because, it all comes down to how the FSA actually interprets the rules in future.

"You could interpret the rules, as they are proposed at the moment, and say that most businesses could just carry on as independent financial advisers," said Mr Kerr.

"Or if you read it a bit differently, it could be interpreted as quite draconian."

Mr Kerr added the restricted model of sales is as yet not properly defined.

Under the restricted model, advisers will not be able to call themselves independent, and will simply be expected to be salespeople for one or more providers, depending on whether they are single- or multi-tied.

Allan Redford of Lyndhurst Financial Management, captured the mood among advisers today.

"It is a mish-mash at the moment really, nobody really knows where they are supposed to be.

"Are we advisers, are we salesmen? In truth we are both – you cannot advise unless you are a salesman and vice-versa," he said.

"You get referrals, but at the end of the day you have to provide the right words to the clientele, making them trust you. You have to be a salesman – the two things go together.

"Even if you advise them on how to fill in the client financial information form you are giving them advice."

Mr Kerr agreed with the calls for clarification on the issue, saying: "We all sell our services on a daily basis despite how you package it up."

The other issue that advisers were

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keen to debate – the shift to fees-only advice for clients – is one on which delegates were less unanimous.

Many delegates were fully behind the FSA's plans, labelling the commission-based model as unfair and misleading.

The commission structure is blamed for the practice of 'churning' clients, under which some have switched consumers between various financial products for no real reason other than to boost their initial commission incomes.

Current adviser charging structures are also blamed for causing 'product bias', where products which offer the best commission opportunities to advisers tend to be selected more, regardless of their qualities for consumers.

But others argued that the industry cannot survive outside of the commission model.

They say that if consumers are asked to pay a fee for advice, essentially they have to reach into their pocket for what feels like an extra amount of money. This image of extra costs is a serious deterrent, they said.

This could potentially cause consumers to ignore the advice industry altogether, leading them to make potentially dangerous financial decisions on their own, many believed.

Richard Green of IFA firm Clarkson Hill Group, believed there is a major misconception when it comes to the issue of commission.

"In the main, the probability is that we only take three or four per cent, and the balance is rebated to offset the cost to the client," he said.

"A lot of my clients are opposed to paying fees – I have got a solicitor as a client and he is opposed to paying a fee

Profile



ROBERT KERR
Scottish Widows

Robert Kerr is head of distribution development for Scottish Widows. He is a member of the Institute of Chartered Accountants of Scotland. He joined Scottish Widows from Grant Thornton in 2001. Previous roles include Corporate Finance Manager, Strategy Consultant and Commercial Manager, on a wide range of internal and external projects. He is currently the Head of Distribution Development, leading Scottish Widows strategic distribution response to the evolving L&I market across the Independent, Bancassurance and Direct Channels.



Our RDR microsite

All you need to keep up to date with the Retail Distribution Review



There were a lot of talking points at the FT Intermediary Forum

– he said ‘it is commission or nothing’.
“The theory that everybody takes maximum commission all the time is a nonsense. The RDR was based on the concept that advisers take the maximum all the time.”

But Mr Kerr said: “To be fair to the FSA, there are some advisers who take the maximum commission all the time. The challenge is that they have to regulate the lowest common denominator.”

He said recent Scottish Widows research on adviser charging, as part of its submission to the FSA’s ongoing consultation, found that 54 per cent of consumers who buy financial products said they would not pay an upfront fee for advice.

“More worrying was the fact that 85 per cent of those who wouldn’t pay that fee for the advice said they would go and execute the deal themselves – but people should be taking advice,” he said.

And, many advisers felt that renewal or ‘trail’ commission is a vital revenue stream.

This type of commission is deducted on an annual basis, and is meant to pay for ongoing advice being given to con-

sumers who are invested in a particular financial product.

But, the FSA says that this advice is not always being given, even though consumers are paying for it. The RDR is to insist trail be annually confirmed by clients on a formal basis.

Jeremy Kaye of Positive Solutions, who described himself as a “one-man band” IFA, was concerned about how his business will fit into the RDR model.

“More than half of my income is from renewal, which I have been building up over 20 years,” he said.

“Now, I do not have one of these fancy business models where I say ‘I am going to send you a lovely report every year’ and I am going to see you here and here, I have always been event-driven.

“I guess that is very un-RDR, so I don’t know what sort of threat that is going to be for my business.”

Mr Kerr said that under the RDR regime the FSA is going to insist that advisers such as Mr Kaye articulate what they are offering very clearly to clients, and explain the fee and commission structures much more clearly.

That will require much more time facing clients, meaning smaller IFA firms like Mr Kaye’s will need to either hire more staff or offload customers, he said.

“Some of the firms have made the journey already to a fee basis and they are providing clients with an agreed level of service,” said Mr Kerr.

“Or they have looked at the client bank and said ‘actually, there are only 100 clients in there that I can service properly, so I will get rid of the rest of them.’”

These extra burdens, or the loss of clients, could prove to be too much for many IFAs, but Mr Kerr believed that despite this RDR is serving an important purpose

“The reality is that all the research shows that consumers don’t trust the industry,” he said.

“So we have got to make some changes to try and engender that trust, so the status quo can’t be allowed to continue.”

He said Scottish Widows is creating fee structures on its product range that will allow flexibility under the future model of charging.

And he pointed out the providers themselves are taking on some of the burden of RDR.

Scottish Widows is expecting to spend several million pounds by the time all of its products have been adapted for the RDR, Mr Kerr added.

Part of this cost comes from the fact providers are also going to be expected to monitor adviser charging themselves.

“This is a concept that we reject,” said Mr Kerr.

“We have obligations under treating customers fairly today to look at large transactions and that kind of thing, what we reject is having to do that on a wholesale basis and within every bit of business that comes to us.”

One example of the problems with this is that it is impossible for groups to know what the ‘going rate’ charge is for advice, Mr Kerr said.

“We don’t know what the market rates are. Only if the FSA was to upload all the data on all the charges could we know what the market rate for fees is.”

John Kenchington is senior reporter for Investment Adviser

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RDR is the single biggest driver of change in the IFA channel, so it’s essential to stay in touch with the latest developments.

Our dedicated microsite is a comprehensive source of information, offering you everything you need to know about RDR. You can even send your questions to Robert Kerr, Head of Distribution Development for Scottish Widows and RDR expert.

Other content includes:

- News and views
- Key dates on RDR
- Response papers
- Latest FSA proposals

For all the latest RDR news and expertise in one place, visit www.scottishwidows.co.uk/RDR

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