Subject: Retail Distribution Review (RDR) and implications for IFAs

Attenders:

Presenters	APPG	Others
Stephen Gay, Director General, AIFA Sandy Scott, Chief Executive, CII Dominic Lindley, Principal Policy Advisor, Which? Sheila Nicoll, Director of Conduct Policy, FSA	Jonathan Evans MP Tracey Crouch MP (part) Lord Hunt Andy Love MP Harriett Baldwin MP Mark Garnier MP Lord Davies Heather Wheeler MP	David Worsfold David Morey (PwC)

Note of key matters:

Background

The Retail Distribution Review aims to increase professionalism in the sale of investment products and remove product bias through the replacement of commission with advice fees, creating a transparent market for investment advice. It has been through some four years of consultation.

1. Presentation by Stephen Gay, AIFA

- AIFA is a trade body and represents 80% of the IFA community
- AIFA has been very active in the consultation and supports the RDR objectives and the main elements of the proposals
- The majority of IFAs are willing adopters and preparing for the new regime
- However the RDR is far from perfect - and there are risks in implementation that may cause undesirable outcomes for advisers and consumers
- The most important lost objective is increased consumer access. Whilst increasing the quality of advice, the RDR will cause a fall-out in terms of quantity of advice with fewer IFAs after 2013
- A demonstration of competence at Level 4 is entirely appropriate in the modern world – an increasing majority of IFAs are either there already or are well on their way
- However grandfathering would be against the interests of the IFA community. If we had thousands of bank advisers (young and old) raised at the stroke of a pen to the level that most IFAs are achieving through a great deal of hard work, the number of letters MPs receive from IFAs would multiply
- That said AIFA would hope and expect the FSA to show some latitude with regard to the deadline for those advisers who don't make it in time despite best endeavours
- There is currently a lot of confusion amongst consumers regarding advice and commission with many believing advice is currently free (especially when provided by banks)
- What Adviser Charging does is put advisers in the position of determining their own remuneration and explaining it clearly to customers. It means they will have to show their customers that what they are offering represents value for money
- Product providers will also have to change – re-focussing on what they are supposed to be doing – delivering better products and prices for customers
- The 8 improvements AIFA wants to see are:

1. FSA to dust off its original consumer access objective – and take a much more proactive role in developing a regime which will allow greater numbers of customers to receive professional advice
2. FSA to provide some degree of reassurance that it will take a reasonable attitude to those whose genuine best endeavours have not quite made the deadline
3. All stakeholders in this sector to recognise they have a responsibility to do all they can to support advisers in reaching the requisite level
4. FSA to make good on its concept of 'regulatory dividends' where well-run advisory firms have invested in their business and people to deliver RDR outcomes
5. FSA to re-think the question of provider factoring on regular premiums
6. FSA to be clear and public about how it will police its commitment to ensure a level playing field between IFAs and banks on Adviser Charging
7. The government to consider again the question of a liability long-stop for advisory firms and bring Financial Services in line with the Statute of Limitations
8. An implementation plan which outlines the success criteria, assesses the risks, and sets out the mitigating actions the regulator will take to ensure that the RDR delivers its desired outcomes.

2. Presentation by Sandy Scott, CII

- CII supportive of this step change
- Of some 29k advisers, 89% have passed the new minimum qualification standards or on route to do so; 11% have done nothing (this number is not considered to be a concern as it will include those expecting natural retirement over the next couple of years)
- Whilst there may be a vocal minority who are not supportive of RDR, these are not reflective of the majority view on the future of UK professional investment advice
- From the customer perspective, most believe that advisers are already qualified (but in reality are below the (RDR) expected Level 4
- A concern that there will be an advice gap through fall out is unlikely as there is capacity for existing IFAs to take on new clients

3. Presentation by Dominic Lindley, Which?

- Which? supports advice through the IFA channel
- Which? is supportive of the change; consumers currently do not understand the investment market or adviser remuneration arrangements; the current qualification levels are too low
- Which? opposes any form of grandfathering as on a cross industry basis it would then take a generation to achieve the desired higher standards
- The enhanced professionalism will be more attractive to graduates in the years ahead
- Not only does commission create a conflict of interest, it is also anti competitive
- Consumers believe advisers should be transparent on remuneration
- There is a real need for consumer education in run up to 2013 and a sense of what constitutes a reasonable price for advice

- The label for bank advisers should refer to "sales" rather than advisers ("restricted advisers")

4. Presentation by Sheila Nicoll, FSA

- The RDR has involved huge levels of consultation, with some 1800 responses and 2500 proactively obtained responses; applies to banks not just IFAs

- The investment market is complex and consumers do not understand it

- Under RDR the fee structure for remuneration does not mean advice has to be paid for up-front; it will be possible to spread the cost of advice over time through product charging

- In terms of standards, the minimum levels will be raised from School Leaver to first year degree; FSA consulted on grandfathering which was rejected by the majority of respondents including IFAs

- Found in consumer research that trust and confidence are fundamental

- Going forward RDR is still a significant project in terms of implementation with FSA:

  - Liaising with the Consumer Education Board in terms of consumer communications

  - Providing support and materials to advisers

  - Communicating with both consumer and industry bodies

  - Monitoring the impacts of RDR including establishing baseline data against which to measure developments

  - Working with stakeholders to support and educate advisers as much as possible

  - Engaging in further consultation (e.g. data collection) next year.

There followed a more general discussion and this touched on:

- The basis by which advisers will advertise the price of advice
- The need to educate consumers on the changes under RDR (transparency and professionalism)
- The definition of advice and the difference between regulated advice and unregulated advice (e.g. given in newspapers)
- The level of contact MPs are getting from advisers concerned about the new (RDR) world and the impact on their ability to practice (absent the new minimum qualifications)
- The extent to which the new qualification standards are contributing to profits of training and related organisations
- Trail commission (on pre RDR implementation sales) continuing after RDR implementation

DL Morey
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