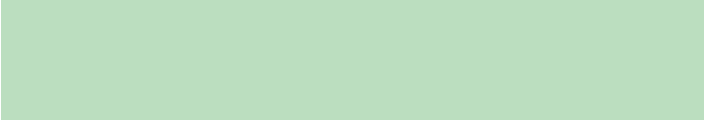


RDR – Will it Work?


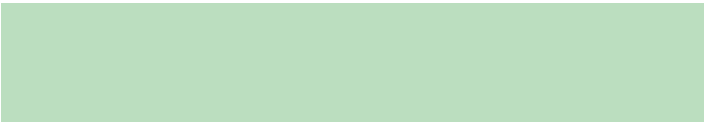


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RDR The Unresolved Issues

Richard Hobbs

March 2010



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Agenda

- An inverted market
- What customers will and won't do
- Consequences of partial adviser charging

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An inverted market

- Market for retail financial services inverted
- Deferred gratification credence goods are not demanded like FMCG “sold not bought”
- Market between advisers and consumers relatively price insensitive
- Market between product providers and advisers very price sensitive: this is the part of the market responding to price signals
- Demand is for advisers not end users

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What customers will and won't do

- FSA Research in 2000 for depolarisation project
 - Customers perception of all professions undervalues them when expressed as an hourly rate
 - Customers seriously under-estimate the costs of provision of professionals services
 - Control group of professionals under-estimate the costs of professional services



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What customers will and won't do

- FSA 2007/8 research for RDR shows consumers would be more likely to pay for advice if they knew what it cost
- i.e. implicit question would you buy anything without knowing the price, not how much are you prepared to pay?

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What customers will and won't do

- Aviva research 2009
 - only 3% of customers would pay over £100/hour for independent advice
 - half would not pay any fee and rather receive no advice at all
 - 17% would only pay up to £25/hour

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Consequences of partial adviser charging

- What will happen when adviser charging is applied to some investment products?
 - demand for advice paid for by adviser charging will fall hence sales of those investment products will fall
 - demand for advice paid for by commission remains unchanged
 - supply of advice paid for by commission will rise
 - sales of products where advice paid for by commission will rise

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Conclusions

- Current RDR solution is unfinished business
- Market dynamics likely to confound policymakers
 - adviser charged market contracts
 - protection and mortgages stimulated
 - PIR or sooner second thoughts about distortions introduced to market
 - further segmentation strategy making adviser charging a HNW market and simple products/advice for masses



RDR – Will it Work?



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