



## TISA Discussion Forum RDR: Beyond the Regulations


Karen Bond  
Navigant Consulting - June 2010



### The Course is Set

The FSA's final policy statement has been issued on the main RDR rules. In summary, these cover the following points:

| Area                         | Rules/Proposals   |
|------------------------------|---|
| <b>Adviser Charges</b>       | <ul style="list-style-type: none"> <li>Product providers will be banned from offering commission to secure sales from adviser firms and, in turn, adviser firms will be banned from recommending retail investment products that pay commission.</li> <li>Consumers must agree the fee for advice upfront. The consumer will still be able to have their adviser charges deducted from their investments if they wish, but these charges will no longer be determined by the product providers they are recommending. Product and advice charges disclosure is required.</li> </ul> |
| <b>Advice classification</b> | <ul style="list-style-type: none"> <li>The definitions of Independent and Restricted advice types have been redefined, with a broader scope and a requirement to fully disclose the nature of any restrictions applying to the range of investments or products offered.</li> <li>A wider range of products within scope of these rules (beyond packaged products), by creating a newly defined broader category of 'retail investment products'. The FSA requires all 'substitutable' products or investments to be considered, within each advice type.</li> </ul>                |
| <b>Professionalism</b>       | <ul style="list-style-type: none"> <li>Higher levels of professional standards apply to all advisers, with a raise in the minimum level of qualification to QCF Level 4 by end 2012. Professional standards will be governed by the FSA.</li> </ul>   |

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## Adjusting the Rigging - Advisers



For advisers, the business impacts are clear, however the practical effects of these rules throw up some significant challenges, including:

- **Investment selection** – How will advisers keep abreast of new and ‘substitutable’ products and their features, when promotion of products does not drive the process?
- **Timetable for transformation** – When is the right time for an adviser to move towards the post-RDR model?
- **Adviser payments** – What support will the adviser need and be able to obtain from providers to facilitate remuneration and cash flow?
- **Transfers of business** – While the ability to transfer commissions with advisers may be welcome to that adviser, is there clear ownership?

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## Adjusting the Rigging - Providers



For providers and administrators, the impacts include:


- **Distribution models** – How will providers ensure their products are offered to advisers and effectively marketed?
- **Share classes** – What position will providers take in negotiating new arrangements and share classes without drowning in administration?
- **Adviser payments** – Will providers facilitate payments to advisers?
- **Separation of XO and advised business** – Will this be a long term requirement or will market pressures drive integration?
- **Legacy business** – For how long must the requirement to maintain pre-RDR arrangements continue?

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## What about Platforms?




### The Wind is Set Fair

The FSA's Platform proposals set out to achieve a number of objectives:

- The removal of practices that may give rise to biased recommendations or investment selection
- The application of suitability criteria for selecting Platforms
- Greater investor choice
- The removal of potential loopholes and inconsistencies in relation to the RDR regulations
- Transparency and clarity over who is making charges and the services provided

**These are important outcomes for consumers**

**BUT.....**



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## Clear Skies Ahead?



### .....will these objectives be achieved by the proposals?

The questions to consider:

- Are there better ways to achieve the outcomes?
- Will the unintended consequences of these changes outweigh or negate any consumer benefits?

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## The Proposals



- Prohibit payments of commissions/inducements to platforms by product providers
- No passing of fund manager rebates to clients
- Reinforcement of existing rules on inducements and charges disclosures
- Need to ensure any recommended platform is suitable for that specific client, which makes it difficult for advisers to use just one provider
- Compulsory re-registration support by end 2012
- Increased capital requirements for providers to ensure, inter alia, adequate resources for orderly winding up

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## Heading in the Right Direction?



Some of the issues might be more practically addressed by other approaches:

- **Prohibition of provider payments**
  - Bias should be identified through review by the adviser
  - Requiring all rebates to go to customers might be easier to implement
- **Charging transparency**
  - Detailed definition of Platform services may still not help the investor
  - Knowing the overall total may be more relevant
- **Assessment of Platform charges under suitability**
  - Depends on the value of services to the adviser as well
  - Quality is important
  - Assumed investment duration is important
  - The total cost is relevant

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## Heading in the Right Direction?



For other proposals, the practicalities are also questionable:

- The separation of advised and non-advised business
  - Will be largely self-regulated
  - May be redundant in the longer term
- Adviser payment facilitation
  - Could introduce a potential bias in adviser choice
  - Is difficult to verify with investors

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## Rocking the Boat



There may be unintended consequences from the Platform proposals:

- Providers may not pass on savings, derived from stopping platform payments, to investors
  - The costs of operating multiple share classes post-RDR will take some of the money saved, with higher risk of error
  - The costs of segregating advised and non-advised business (and correcting the inevitable errors) will add to these costs
  - The costs of promoting and marketing products may mop up any remaining savings
- Platform charges may have to increase to make up the shortfall
- New funds and new managers may find barriers to entry insurmountable

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## Thoughts?



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