



Independent, Bancassurer, Restricted – the Future of UK Distribution?



Independent, Restricted or Bancassurance?

Tied advice is banned... basic advice is compulsory?

4



RDR and Bancassurance

“Looks like the banks have knobbed the FSA again”

“Yet another little twist in the rules in readiness for the banks to fleece the client ”

“Of course it's a stitch-up to benefit the banks, what else do you expect? ... Get real guys, we're up against a legitimised and institutionalised mafia”

5

Independent, Bancassurer, Restricted – the Future of UK Distribution?



How well are the banks positioned?

- As banks we have a real chance to create a business which helps our customers.
- We have more of the components than any other type of organisation:
 - Access
 - Understanding
 - Expertise
 - Scale
 - Products
- As we assemble them we need to restore confidence by:
 - Showing that we act for our customers and in their best interests
 - Give fair transparent pricing
 - Offer world class solutions for the type of customer we deal with

6



The Cost/Income Dilemma

- Retail Banks carry large costs – staff, property, management infrastructure .
- Post RDR, these need to be funded by the adviser charge – particularly in a vertically integrated model.
- These may not be charges that a customer will want to pay or charges that the firm will want to apply.

- *“The Adviser Charge needs to be reasonably representative of the costs of making a recommendation.”*
- *“A firm needs to consider whether a personal recommendation is likely to be of value to a client when the total charges that a client is likely to be required to pay is taken into account.”*
- *“We would not expect a firm to provide advice to a client for whom the cost of that advice is such that it is not in their best interests to receive advice at all.”*

7

Independent, Bancassurer, Restricted – the Future of UK Distribution?

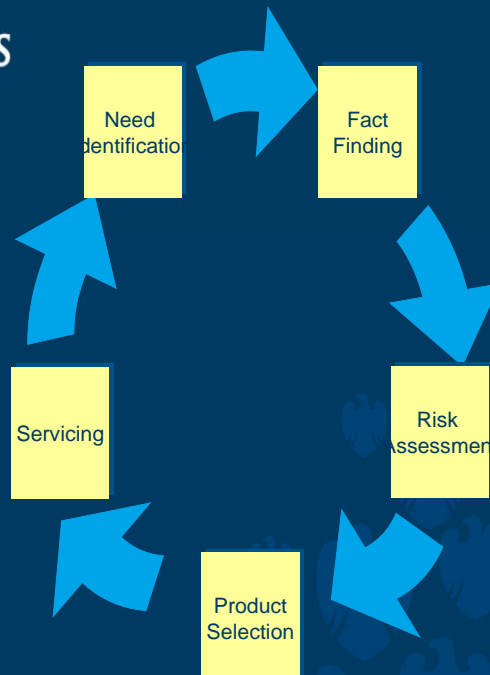


Capturing the Value chain

- As the income from distribution is reduced firms have to look to:
 - **Reduce costs** – including introducing low cost distribution e.g direct;
 - **Increase volumes** ;
 - **Increase income producing activities** (chargeable hours);
 - **Capture more of the value chain** – through manufacturing or model portfolios;
 - **Increasing back-book income** – as trail or an AMC;
 - All of the above;



- This is likely to result in outsourcing (e.g. research functions) and vertical integration



9



Independent, Bancassurer, Restricted – the Future of UK Distribution?



The Role of the Adviser

- The role of the tied adviser is to be evolving with FSA interpretation of COBS 2.1.1 and with the new qualification requirements.
 - A *firm* must act honestly, fairly and professionally in accordance with the best interests of its *client*

- 20 out of 24 unsuitable cases in the platform thematic review were on the grounds of cost.
- DP 10/2 implies that advisers (restricted or IFA) need to find the cheapest platform
- DP 10/2 highlights the need to consider existing assets when looking at model portfolios
- Pension Switch paper

10

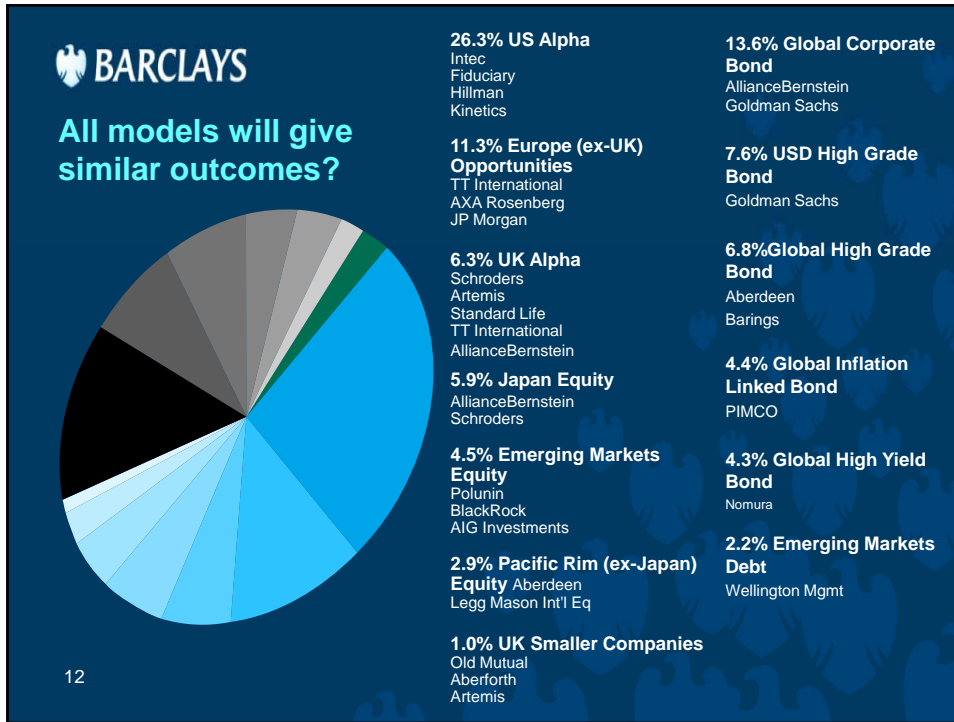


Role of the adviser - a healthy levelling-up

- Advisers will charge for advice – this will need to be a credible service – effectively advising on assets across the whole market.
- The tied advice model of the past is unlikely to be sustainable – the gap between true IFA and “sales” will close.
- At low investment sizes the skills and time to do this will make the service prohibitively expensive

- Simplified Advice/Basic advice+ are needed to address the public policy objectives

Independent, Bancassurer, Restricted – the Future of UK Distribution?



BARCLAYS

What will the advised market look like?

	Manufacturing Capability	Distribution Only
Low Investment Size	<i>Direct/Basic</i>	<i>Direct</i>
Medium Investment Size	<i>Restricted</i>	<i>Restricted/Independent</i>
High Investment Size	<i>Restricted</i>	<i>Independent</i>

• Banks are ideally positioned to deliver compelling propositions in all these categories – but it is no “stitch-up”!