



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

TISA Seminar  
Independent, Bancassurance, Restricted - the  
Future of UK Distribution  
7<sup>th</sup> October 2010

Richard Freeman, CEO Intrinsic Financial  
Services:

The future for Non-Bancassurance  
“Restricted Advice”



## Considerations

- “Restricted Advice” Some commentators are suggesting this route could be the surprise winner post-RDR.
- What will the successful models have as their critical success factors?
- What role, if any, will technology play?
- Is this a return to the DSF of old?
- What controls will be needed?



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### There are many other Challenges for Retail Advice – not just RDR

#### Regulation

- TCF
- DIFs
- Financial Crime
- Data Security
- Advice Risks
- Costs – increase FSA/FSCS fees/levies

#### Long Term Risk

- PI Cover
- Phoenix
- Product selection

#### Margins and Profit

- Income changing in quantum, form and shape
- No separate DIF income
- New profit levers
  - Fixed Fee rates
  - AUM

#### New Blood

- Non industry
- Experienced
- Price of entry

#### Realising Capital

- Valuing a business
- Raising Capital
- What is being bought and sold – Clients, Income streams, Risk?



### So, many Factors make up a Firm's or Network's Proposition to its Advisers

#### Remuneration and Cash flow

- Headline contract offer:
  - Commission rates
  - Commission/fee retention levels
- Negotiated product/fund charges
- Cash Flow support

#### Ease of Doing Business

- Sales process
- Issuing business
- Processing customer changes
- Ongoing T&C

#### Business Development

- Proposition
- Managing others
- profitability

#### Consumer Proposition

- Multi Tie product ranges
- WoM selection tools
- Financial planning tools
- Reliance on the advice/complaint management

#### Professional Safety

- Quality framework
- Sales process
- PI arrangements

#### Exit Approach

- Rights post termination
- Capital creation
- Succession planning





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### What's in a name?

- Independent
  - Can use panels to narrow down Provider selection per transaction
  - Can segment clients and exclude product types.....
  - Can use one WRAP platform
- Restricted
  - Will use panels to narrow down Provider selection per transaction
  - Will exclude product types
  - Will (often) use one WRAP platform

**We really need to move on from product range being a proxy for advice quality. But it may be a proxy for client need.**



### So what is the issue? **Transition**

#### Commission to Fees

- More sophisticated Advisers (even if operating from a restricted range in RDR speak) cottoned onto the benefits of charging fees with their more complex/sophisticated Clients sometime ago.
- The rest (the vast majority, MT or IFA today) are less sophisticated and have less complex/sophisticated “mass affluent” clients (e.g. with incomes not wealth) using products to meet their needs.
- **Staying in the mass affluent market for Pensions and Investments will be tough for small firms yet the potential for business remains strong.**





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### AIFA's Advice Horizons paper:

“Successful firms of the future will have evolved from sales based operations to a more business focussed model with core competencies focused on client service.

Advisory firms that are open to the opportunities presented to them and are disciplined on their pathway to changing their businesses will prosper in future years.”

“...in times of change, those firms that have a clear idea of where they want to go and who pilot their course according to that bright star have the great opportunity to succeed.”



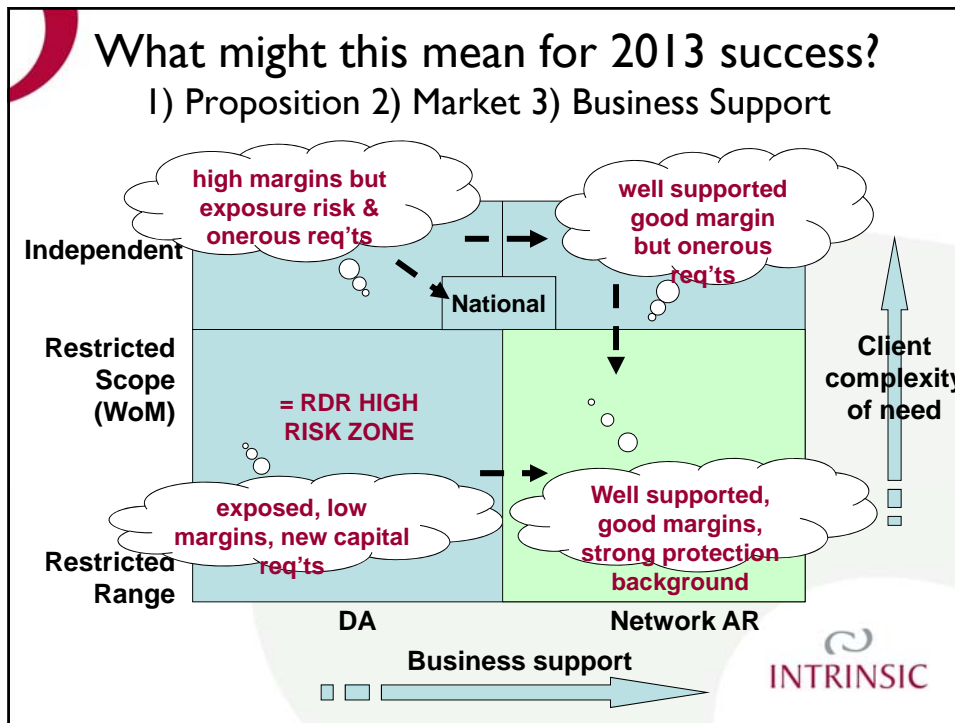
### Critical Success Factors

Apply to most businesses:

- Strong Proposition
- Clear Target Market
- Business Skills and Support; contacts, knowledge, skills etc to deliver



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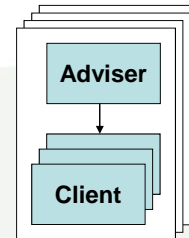
## Post RDR Critical Success Factors – for Mass Affluent Financial Advisers

- Today, high upfront commissions cross subsidise all related activity
- In 2013 most adviser charges will be lower “implementation” fees
- Too small to subsidise wider activities necessary
- Advisers will need a greater share of wallet across all products to generate a profitable margin overall
- Firms need help with the Business Skills to respond

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## Today's Typical Small Firm

- Actual or Quasi Partnerships
  - 2 or 3 advisers sharing an office and administrator
- Sole Trader or Ltd Co.
  - Operating like mini networks



- Adviser/client relationship; limited referral activity
- Commission taken up front to cover costs; limited trail
- Firm's growth strategy = recruit more
- Won't work post RDR when up to 50% of the RIs' income will be at risk



## The Journey

Broad based proposition.  
Transactional, responsive,  
initial commission based

Clients?  
Markets?

Skills?  
Preferences?

GI, Mortgage,  
Protection.  
Commission

Broad proposition.  
Implementation  
fees via  
investment  
products

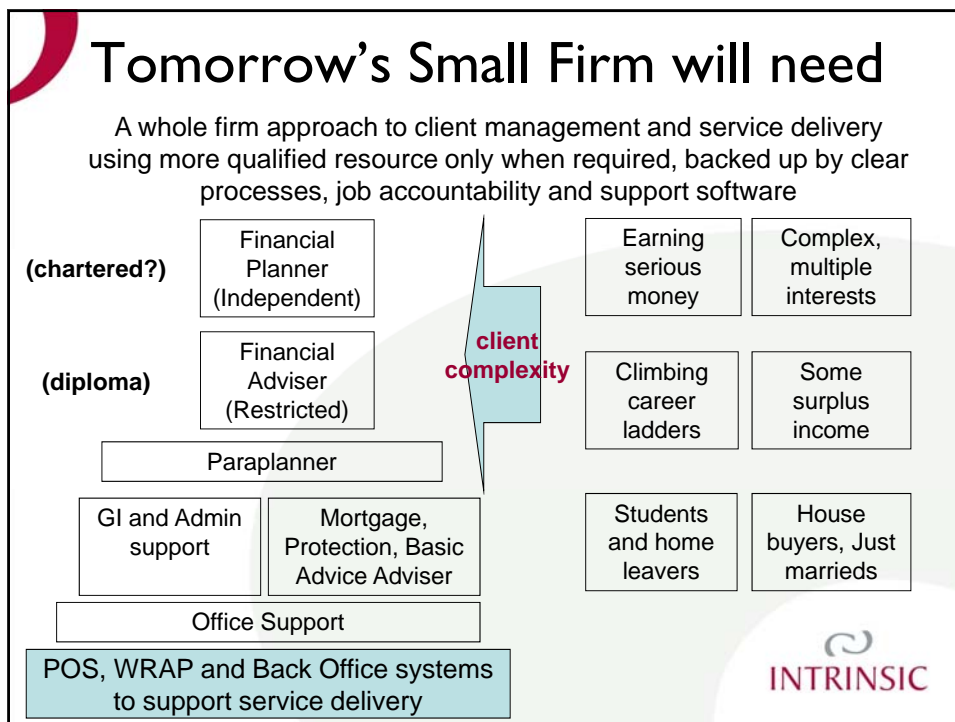
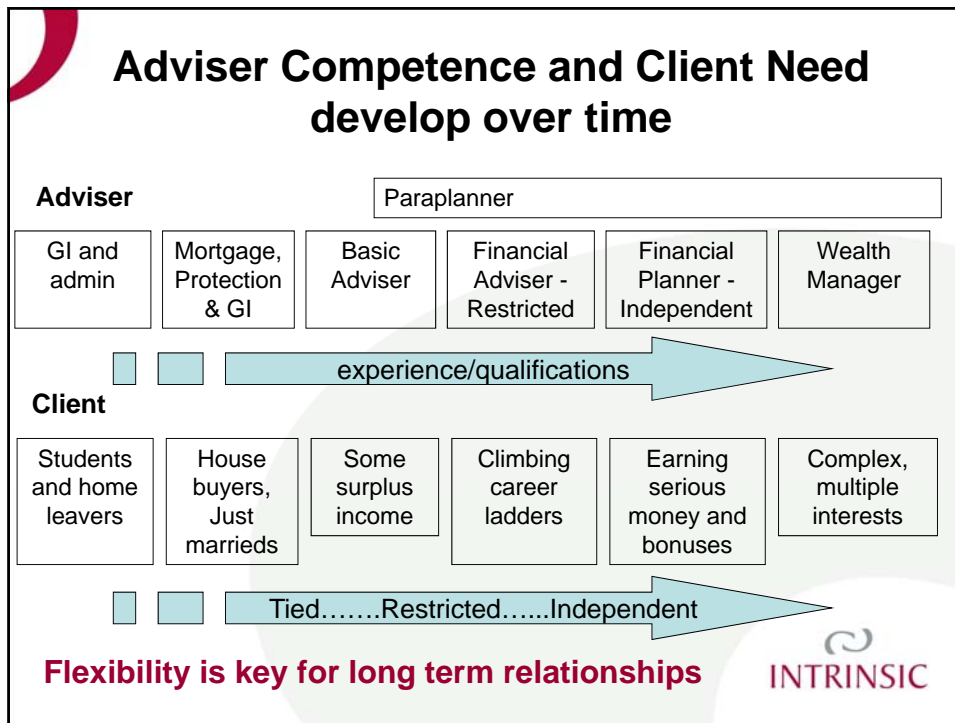
Broad  
Proposition  
with activity  
based fees  
for  
Investment

Wealth  
Management  
proposition.  
AUM Fees

Fees continuum as value is added to commoditised products;  
subject to a firm's clients need for that value



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## Won't Survive Alone in Early Days

Without AUM fees, won't survive on own

Staff	Total required	New Clients	Existing Clients with trail	Average Investment s/sales each	Retained Initial @ 3%	Retained AUM @ 1/2%	Retained Commission @ £1000	
1	£125,000	10	5	£75,000	£22,500	£18,750		£41,250
1	£75,000	20	9	£20,000	£12,000	£9,000		£21,000
1	£20,000	185		2			£370,000	£370,000
2	£60,000							
2	£36,000							
	£346,000				£34,500	£27,750	£370,000	£432,250


Needed to fill the gap



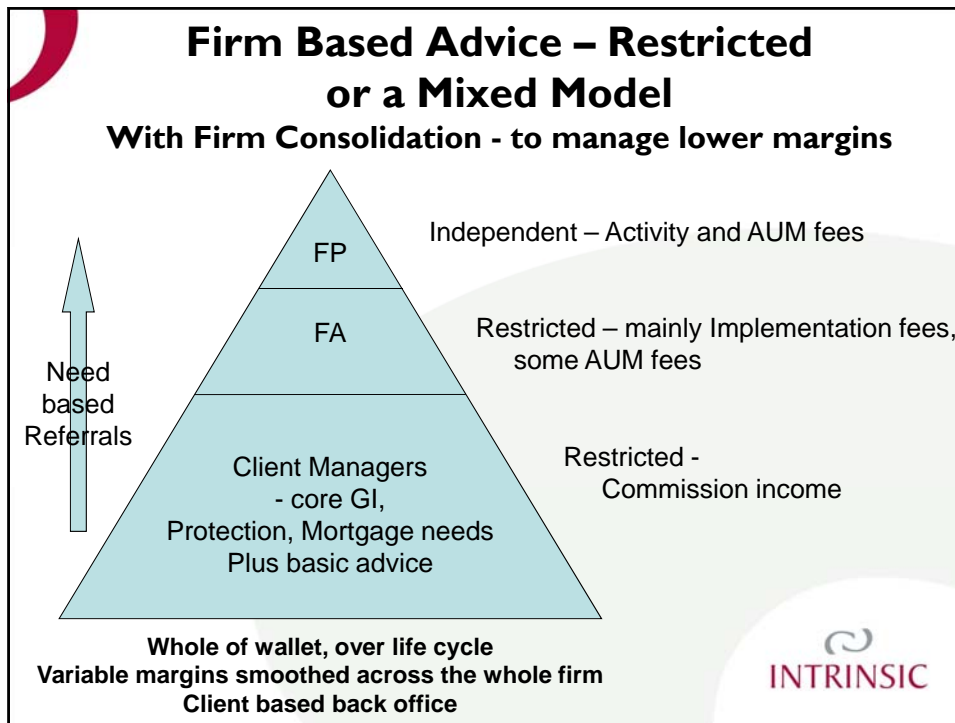
## But Can Prosper in the Future

With referrals and recurring fees the firm prospers

Staff	Total required	New Clients	Existing Clients with trail	Average Investment s/sales each	Retained Initial @ 3%	Retained AUM @ 1/2%	Retained Commission on @ £1000	
1	£125,000.00	10	50	£75,000	£22,500	£187,500		£210,000
1	£75,000.00	20	90	£20,000	£12,000	£90,000		£102,000
1	£30,000.00							
1	£20,000.00	185		2			£370,000	£370,000
2	£60,000.00							
2	£36,000.00							
	£346,000.00				£34,500	£277,500	£370,000	£682,000



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## Summary

- The Future for Restricted Advice lies hand in hand with each firm's ability to transition to profitable models for the mass affluent market.
- Networks have the management skills and economies of scale to oversee their ARs transition profitably.
- Intrinsic also has the back office technology to support a mixed firm model
- Those, like Intrinsic, that have a USP to build confidence in existing ARs and attract the movers will be the winners.

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## In Conclusion

