



Distribution of Retirement Products in a Post-RDR World

TISA Distribution of Retirement Products in the Post RDR World

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“Consultancy Charging” – the latest regulatory thinking

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Introduction

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- > “Consultancy charging” = adviser charging in FSA thinking
- > Consultancy charging invisible in Retail Conduct Risk Outlook 2011
- > Only common thread between PS10/10 and RCRO is churning
- > So need to consider the wider RDR thinking

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Completing the rule changes

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- > Unit reinvestment, deduction, cancellation in lieu of cash rebates
 - New share class at lower price and unit deduction creates trail commission effect
- > But fund suspensions, net redemptions or wide spreads could compromise value in the hands of clients (not TCF)
- > Information requirements when investing in authorised funds through nominees


Comment:

RDR over-complicated; leaves too many gaming opportunities on the table and costs too much and PS to CP10/29 now delayed to Q3!

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Anti-forestalling measures




- > Dash for commission – new business, increments, top ups
- > Emphasis on protection and anything else paying commission
- > Churning
- > Exit strategies based on inflated valuations
- > Adding trail commission as rapidly as possible
- > FSA has “heightened our supervisory vigilance”

[source: all RCRO 2011]

- > Legacy commission standard appears different between GPPs and individual contracts
- > Vigilance over factoring simulation
- > Use thematic and supervisory activity to challenge new business
 - Could lead to past business reviews
 - Enforcement
 - Redress

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Anti-forestalling measures



- > FSA has sponsored the identification of good and poor practice
- > Report to the FSA from the Consultancy Charging Working Group – March 2011
 - <http://www.fsa.gov.uk/pubs/other/ccwg.pdf>
- > “The suggestions which follow are not prescriptive and are intended purely as a guide as to how consultancy charging might operate in practice.”
- > But what are the FSA to make of someone who deviates from the CCWG’s good practice without good reason...good in the FSA’s view that is

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Threshold Condition 4

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FSA see:

- > Rapid expansion of adviser numbers as strategic response to RDR by several networks
- > Firms trying to create additional value for their clients to justify higher adviser charging

But:

- > Advisers will not be able to adopt higher adviser charges for recommending DIFs and similar products than for recommending competing products such as third-party collective investment schemes

[source: RCRO 2011]

- > FSA will use ARROW discovery visits to test their views

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Clarity for customers

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- > Disclosure standards adopted by platform service operators, particularly on charges, do not always provide a complete or clear description of total costs involved
- > Difficult for customers to tell what part of the service they are being charged for; what is the value of that service and whether the fund actually offers VFM

[source: RCRO 2011]

- > For customers read scheme members

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Data collection

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- > CP11/8 (May 2011) does refer to consultancy charging
- > Proposes creating a new section (Section L) to the Retail Mediation Activities Report (RMAR) to gather data on consultancy charging:
 - Revenue from GPPs and stakeholder pension schemes and consultancy charges
 - Number of employers that received one-off services
 - Employer clients receiving ongoing GPP and stakeholder pension scheme services
 - Range of consultancy charges
 - Types of consultancy charges in typical scheme

Comment:

Drives cost into business and invites risk of regulatory intervention. All the usual data quality issues.

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