

The Future Shape of Retail Distribution



Consumer responses to the impact of the RDR

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Introduction

- Consumer decision making
 - Perceptions of advisers
 - Choosing an adviser

- The impact of the RDR
 - Service labelling
 - Adviser charging

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What consumers' want



- **Financial products**
 - Simpler products with no nasty surprises that do what they say on the tin
 - Transparent
 - Good value for money
 - Manageable level of choice

- **Advice**
 - Unbiased, independent
 - Separate from the sales process
 - Accessible
 - Affordable
 - From a trusted source
 - High quality from trained and competent advisers
 - Tailored for individual needs not generalised for a group of consumers

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Decision making



- A strong and consistent sense that 'there is too much choice out there'

- A clear recognition that 'we need to be guided' but no sense of 'who you can trust'

- Feeling that choice is, more often than not, confusing, with many respondents unsure about who to go to for advice:

"You can't trust people who are trying to sell you things ... they have their own interests at heart rather than yours"

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Decision making

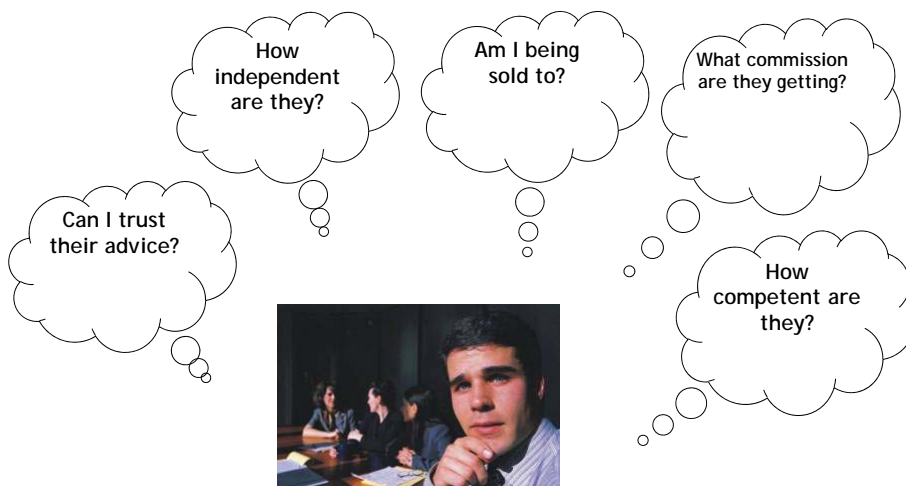


- They do not understand the market or the products;
- They cannot judge the quality of advice (and some don't know how to access it);
- They are at risk from the market and from the advice generally;
- They worry about being 'beneath' investment advice because they know they lack the basic knowledge to understand it and think they do not have enough money to be of interest to the adviser; and
- All of these barriers are compounded by a lack of trust

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Perceptions of advisers




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Perceptions of advisers




<p>Sales driven</p> <ul style="list-style-type: none"> ▪ Ultimately, seen as sales people ▪ Self interested ▪ Pushy and driven by targets ▪ Many respondents 'wary and scared' of high pressure tactics ▪ Feel obligated to buy 	<p>Independence</p> <ul style="list-style-type: none"> ▪ IFAs: assume that they are biased towards certain providers ▪ Panelled ▪ Many don't believe true 'independence' exists ▪ Banks: Know where you stand, but limited
<p>Commission</p> <ul style="list-style-type: none"> ▪ How does commission affect the advice they are giving me? ▪ Several claim to check advice with a couple of advisers 	<p>Trust</p> <ul style="list-style-type: none"> ▪ Unsure whether adviser will promote solution that is genuinely in customer's best interest ▪ Fear that they will work to their own agenda, not that of the customer

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Choosing an adviser



- Selecting an adviser is difficult, and many struggle to know how to judge/ choose a good adviser
 - Situation not helped by the long term nature of the advice
 - It may be many years later when the value of the advice becomes clear
- Many default to their bank (when talking about an adviser, they mean the bank adviser)
 - Brand reassurance
 - Assume individual is reasonably knowledgeable (to bank minimum standards)
 - Accessible and familiar
- Those with IFAs often have acquired them through recommendation
 - Friends and family or recommendation of previous IFA
 - Have often used same IFA for several years

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Choosing an adviser



- Adviser selection falls into three main areas
 - Reputation
 - Word of mouth, recommendation
 - Personal skills
 - Unpressured
 - Appear trustworthy and honest (mainly subjective)
 - Put you at your ease
 - Listen/ have your best interests at heart
 - Knowledge
 - Confident in the information they are portraying and aware of the options/ products etc
 - Able to explain issues in layman's terms/ so that you understand (translate the jargon)
 - Perceived age/ experience and longevity in the business
 - Provide accurate information
 - Access to products/ special deals etc
 - Qualified (although for majority this is assumed, rather than proven)
- For many, the individual is all important and ultimately the choice is made on 'gut feel'/'personal chemistry'
 - The service may be secondary if the individual appears trustworthy and competent

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Consumers describe two types of adviser



Independent

- Wide range of companies/ products to select from...
 - And for some, product risk profiles
 - ...but may use panel within this
 - Impossible to specialise in everything
 - Likened to the Carphone Warehouse
- Commission based, self employed
- Highly qualified
- 'Obscure'
 - Relatively inaccessible/ hidden
 - Only tend to come across them though word of mouth
 - No big brands/ high street shops

Not independent/ Bank adviser

- Linked to their own product range (may not be the best available)
 - Described as selling their own product
 - But on probing, acknowledged products can be provided by selected partner
- Relationship implies bank has (or should have) customer's best interests at heart
 - But in reality, may be self interested - sales/ target driven
- Non commission so less biased
 - But likely to be paid less which may imply lower quality
- Convenient
- 'Safe'
 - Recommendations unlikely to be high risk
 - Unlikely to carry high risk products

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Impact of the RDR



- Restricted advice vs Independent advice
- No prescribed form of words
- Clear risk of 'restricted advisers' misrepresenting the scope of their service
- Which? preferred the label "Sales Representative"

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Views on commission



- Most respondents know/ assume that advisers receive commission
- Although less sure with bank advisers
 - Assume basic salary, or mix of basic and 'bonus' to incentivise them
 - One or two less savvy surprised at this
 - Banks offer free advice as part of their service to you as a customer - earn their income from you in other ways
 - No commission paid = less bias in the advice given
- For majority, amount of commission paid was a mystery
 - Unaware of what paid in the past
 - Can't remember it being discussed
 - Unable to 'guess' the value of advice

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Views on commission



- "Is that product the best thing for you or the best commission for them."
- "Even if they say they've got your best interests at heart they haven't because it is what they will get paid at the end of the day."
- "It does make you distrust them a little, are they going to go for that because they are going to get more commission?"
- "The provider gives them a kick back once you have paid the initial investment"

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The worst advice in life is claimed to be free



- Statements from advisers collected during our mystery shopping:
- "Commission comes out of their marketing budgets and not the client's pockets"
- "I'm not going to charge you anything ... I'll get paid by whichever investment company it is. So as far as you are concerned you are not really paying for advice."
- "If you went to an IFA they say 'well I'll charge you £100 an hour for my advice' but its all free here"

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Move to adviser charging



Principle of separating out the cost, and agreeing this up front, welcomed by all...

- Clear and transparent, less complex
- Open, honest and up front - fair for the consumer
- Removed bias in the advice, resulting in better advice
 - No incentive to select one provider over another, complete impartiality
- Provider influence removed
 - Although this required explanation, all welcome this change
- Improved product quality
 - Providers can no longer rely on incentivising advisers, the product must compete in its own right

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Move to 'adviser charging'



- Price of advice will rise in the consideration list
 - Currently does not figure, in future will be in the top 5 (but probably will not outweigh trust/ recommendation etc)
- Increased scrutiny of the advice/ service that the adviser offers
 - May result in more negotiation/ shopping around as set clearer parameters by which to shop around
 - Likened to getting an estimate before selecting a builder/ plumber etc
- Increased competition between advisers
 - 'Deal of the month' offers, local competition

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Move to 'adviser charging'



- "It is taking away the choice of going to the company which gives them the biggest commission, they are actually focusing on the product which is best for you which takes that element of the whole commission away. You should get better advice."
- "The adviser is making it physical to you up front. At the moment it's all hidden."
- "By doing that it becomes more professional. It takes away the sales element. If you went to a solicitor you expect to pay for their service."
- "They are obviously cleaning up the house, they are going to be more accountable."

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Shift in expectations



- The proposed separation of the cost of advice does change perceptions of advisers and the quality of service that they provide
 - More professional and customer focused
 - It does raise the bar, and over time will increase consumer confidence in the advice that they receive
- Also introduces the potential to charge based on experience/ expertise
- For some, the fact of paying a negotiated fee implies a level of contract/ promise that does not currently exist
- As a result of the transparency, the adviser becomes more accountable

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Consumer issues

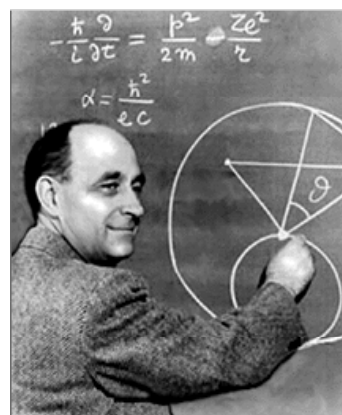


- However, some feeling that this system still favours the savvy/ experienced/ confident investor
- Several concerned re ability to set/ negotiate fee with adviser
 - No idea what advice costs
 - Unable to judge what is/ is not a reasonable fee - feel vulnerable
 - Unsure how fee will be 'set'
 - Some feel adviser will charge more for a recommendation which is higher risk vs. lower risk, rather than on the amount of work involved in providing the advice
 - Advice is intangible
 - How can you measure one adviser against another?
- Unclear what you are actually getting for the fee
 - What is 'included' in the contract, where do liabilities start and end etc
- Some assume or suggest a flat/ set fee for the advice to overcome these issues

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How much?



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How much? 



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How much? 

- Scenario 1:
 - A consumer aged 68 owns a fixed rate bond worth £95,000 which has just matured. They want to know how they can maximise their income whilst not taking too much risk with their capital.
- Scenario 2:
 - A self-employed consumer aged 35 is considering taking out a pension. Their business is doing well and they have around £600 per month to invest. They have no existing pension provision.
- Scenario 3:
 - A consumer has 3 with-profits bonds worth around £150,000. They were sold them 8 years ago by a bank, don't really understand what they are and want to know if they should move to a different investment.

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How much?



- Scenario 4
- A consumer has just received an inheritance of £15,000. They have some existing debt and want to know how to use this money. They also want to know where to put £100 per month that they have spare.

- Scenario 5
- A consumer is just about to retire and has a pension fund of £75,000 alongside a small final salary pension of £750 a month. They want to know how they can maximise their income in retirement and whether and how they should convert their pension into an annuity.

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Outstanding issues



- Changes to 'Platforms' rules and 'Platform' charges
- The role of providers in preventing excessive deductions
- Vertically integrated firms (banks and building societies)
- The cost of going direct
- Legacy arrangements
- Please don't charge non-pension advice to the pension
- Auto-enrolment and group personal pensions: Impact of consultancy charges
- Structured deposits

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