

## RDR: Will it work, and what next from the FSA?

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### RDR: Will it work?

- For consumers
- For advisers
- For product providers
- For the FSA
- For the Government
- Technically does it work?

### What next from the FSA?

- Group market
- Protection
- Mortgages

## Distribution and Advice in the post-RDR World

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### Will it work for consumers?

- Will have to “negotiate” charge with adviser
- Deal with product provider and adviser if charge is to come from the product
- Handle more and different information
- Somehow they have to do more themselves with the perception of it costing them money to do so!
- Fewer advisers to engage with if forecasts correct
- Consumers under-estimate worth of all professions

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### Will it work for advisers?

- Depends on their starting position
- Commission, trail commission and commission sacrifice models either out of business or compromised (no factoring or soft loans)
- Making cost of advice transparent to consumers who cannot judge value tricky
- Uncertainty remains over rest of envelope (e.g. ETFs, structured, group, protection, mortgages, regular premium: FSA think they are dealing with a single premium market)
- FSA angling to restrict scope of distributor influenced funds
- QCA level 4 or work-based assessment
- Less help from product providers

# Distribution and Advice in the post-RDR World

## Will it work for product providers?

- Need more sales but less new business strain
  - Fewer sales if fewer advisers on more transparent terms
  - Less new business strain because of adviser charging
- Need system changes for adviser charging and new system for “direct instructions”. Looks expensive
- If regular premium business cut off, where does single premium business come from? What is the long-term viability of the model?
- Could re-invent DSFs and take back in-house regulatory risk

## Does it work for the FSA?

- Believe most new business is churn; believe it will be shut off:
  - Monthly renewal premiums
  - Money purchase transfers
- Want to create pressure on IFAs from their own clients
- But also want:

an industry that engages with consumers in a way that delivers more clarity for them on products and services

a market which allows more consumers to have their needs and wants addressed

remuneration arrangements that allow competitive forces to work in favour of consumers

standards of professionalism that inspire consumer confidence and build trust

an industry where firms are sufficiently viable to deliver on their longer-term commitments and where they treat customers fairly

a regulatory framework that can support delivery of all of those aspirations and which does not inhibit future innovation where this benefits consumers

(CP09/18, para 1.3)

- Behavioural economics agenda

## Will it work for Government?

- Which Government? (N.B. Civil servants survive elections)
- White Paper (Cmnd 7667) envisages another look at product regulation
  - Consultation before end of year
- Did Treasury prevail on FSA to retain Basic Advice, hence making CP09/18 look so clumsy?
- Or is there an agenda to move on from simply relying on process regulation?

## Technically will it work?

- Inverted market: proposals call for end of inversion without saying how it will happen
  - How will clients know how much to pay for advice?
  - Why will transparency increase engagement?
  - Why shouldn't firms seek to arbitrage any set of rules to preserve their livelihood?
- If greater transparency cedes greater power to the adviser, how does this secure FSA's objectives?



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### What next from the FSA?

- Proceed to implement as close to current prescription as possible
- Try to make sense of group business, especially GPPs
- Consult on protection and ultimately mortgages
- Police “conduct risks” with ever greater vigour
- Hope for innovative solutions to factoring
- Hope for new approaches to consumers

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