

What Advice Will Look Like Post 2012

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Agenda

- Introduction
- NMG / H2B – IFA tracking research findings
- The challenges for IFAs
- Beyond 2012
- Appendices

Introduction

- Over the period 8 – 17 July 2009, NMG / H2B undertook a programme of quantitative research with financial advisers to gain their initial reactions to the outcome of the review
- This is the 5th survey that NMG / H2B has undertaken into adviser attitudes towards the RDR since July 2007

Key findings

- RDR will result in a spike in advisers leaving the market but long-term demand drivers and increasing levels of professionalism will ensure a vibrant independent sector
- Providers face significant challenges in tailoring support to an adviser market which is segmenting along attitudinal lines
- The temporary assessment option for RDR-level qualification will help retain some waverers in the independent sector
- The re-emergence of provider owned and controlled sales forces may provide a home for those questioning whether to remain as independents
- RDR will drive increased professionalism in the independent sector but will do little to improve consumer access to financial advice

RDR segmentation

NMG's RDR segmentation model has been applied to respondents to this survey to better understand the differences in views of IFAs based on different attitudes towards the RDR

Segment Name	Characteristics
Enthusiastic Advocates 30%	<ul style="list-style-type: none"> • Have Level 4 qualification and / or are well advanced towards achieving this • Have implemented, or have clear plans in place to implement an Adviser Charge equivalent remuneration model
Willing Adapters 30%	<ul style="list-style-type: none"> • Have clear plans in place to achieve Level 4 qualification • Have clear plans in place to implement an Adviser Charge equivalent remuneration model
Reluctant Accepters 25%	<ul style="list-style-type: none"> • Express an intention to achieve Level 4 qualification in the near future • Express a longer term intention to implement an Adviser Charge equivalent remuneration model
Steadfast Rejecters 15%	<ul style="list-style-type: none"> • Do not hold Level 4 qualification and do not intend to take the qualification • Do not intend to migrate to Adviser Charge equivalent remuneration model

Note: The above 'characteristics' are typical attributes of advisers who fall within each segment – these are NOT the actual questions asked to determine the segmentation

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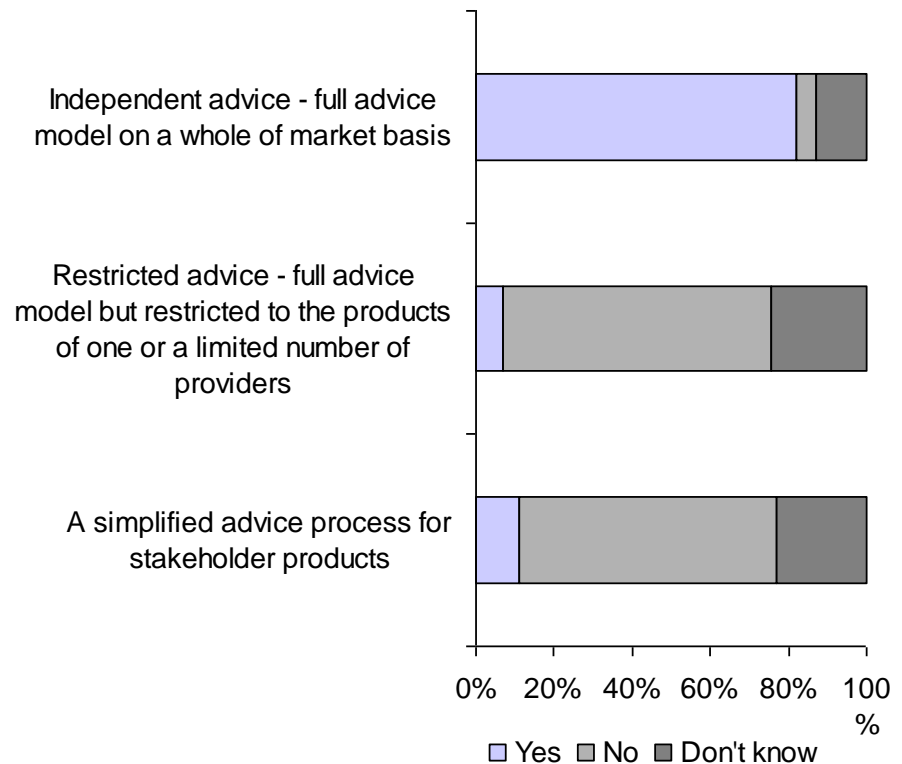
The previous 5 segments were reviewed to create these 4 segments: Fully transitioned / Advanced transitioners = Enthusiastic Advocates; Early stage transitioners = Willing Adapters; Late transitioners = Reluctant Accepters; Will not transition = Steadfast Rejecters. Fully transitioned and Advanced transitioners showed a very similar pattern on various topics so were merged.

RDR Impact 1

Few advisers expect to alter their current advice model, expecting to remain wholly or largely focused on providing independent advice

- A large majority of advisers expect to continue to offer independent advice once the RDR proposals are implemented
- 98% of Enthusiastic Advocates and 92% of Willing Adapters expect to offer independent advice after January 2013, compared to 69% of Reluctant Accepters and only 52% of Steadfast Rejecters
- Those who are Reluctant Accepters and Steadfast Rejecters also appear less certain on their future model, giving higher levels of 'Don't know' responses to the various services

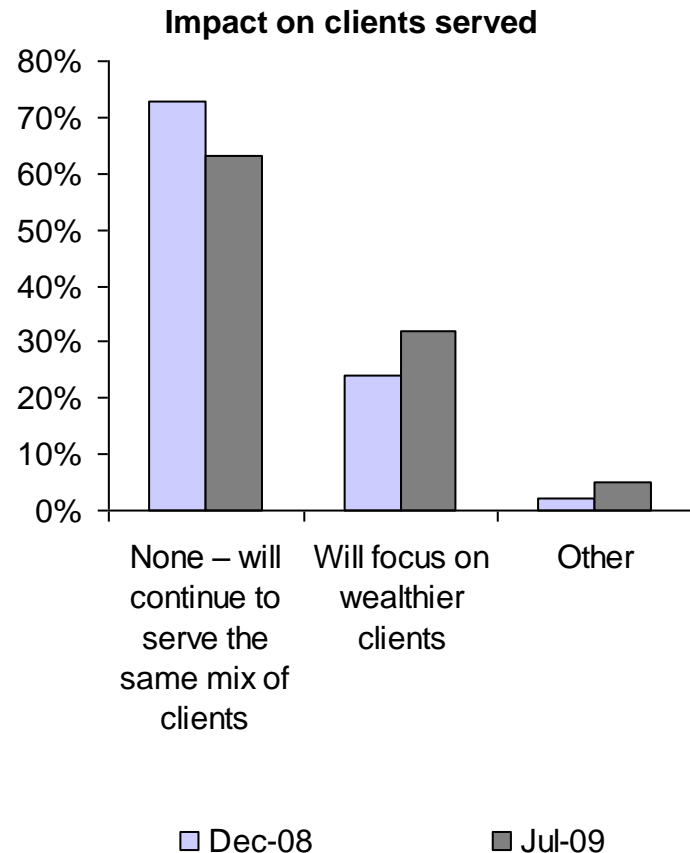
Services plan to offer



RDR Impact 2

Most will continue to serve their existing client base but there is considerable concern that less wealthy consumers will not be able to receive independent advice

- Compared to December, the proportion that say they will focus on wealthier clients has increased significantly
- Around 3 in 5 expect to serve the same mix of clients, which is consistent across segments
- Steadfast Rejecters are more likely to say 'other' which mainly includes references to the fact they will have left the industry
- Many respondents comment that the implementation of the Adviser Charge model will reduce the availability of independent advice



"I think it will seriously damage the availability of independent advice to the average customer."

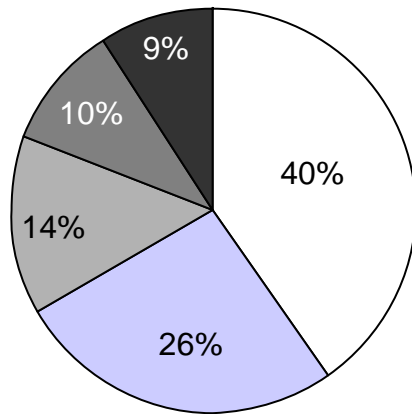
Base: 335 (Dec 2008); 275 (Jul 09)

What impact if any, will the RDR have on the clients that you service?

RDR Impact 3

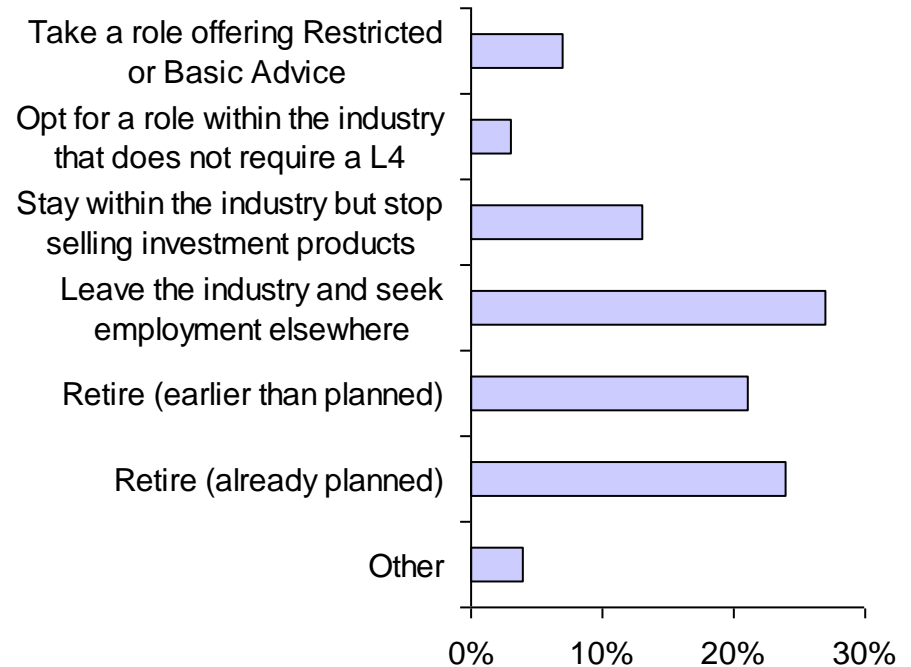
Two thirds say they are likely to remain an IFA after 2012; among the one in four who expect not to be, the majority say they will leave the industry, either through retirement or from working in a different area

How likely to stay independent after 2012



- Definitely likely
- Quite likely
- Quite unlikely
- Definitely unlikely
- Not sure

Expected future occupation
(Among those unlikely to be independent after 2012)



Base: 275 (Jul 2009) Taking all things into consideration, how likely is it that you will be an Independent Adviser after 2012?
 Base: All unlikely to be independent after 2012 - 67 (Jul 2009) What do you expect to be doing in future if you are not an independent adviser?

RDR Impact 4 – profile of likely / unlikely to stay independent

Among those that are unlikely to stay independent, there is a significantly higher proportion aged over 55, operating as sole traders and with a lower annual income, compared to those who are likely to remain so

All likely to stay independent after 2102 (66%):

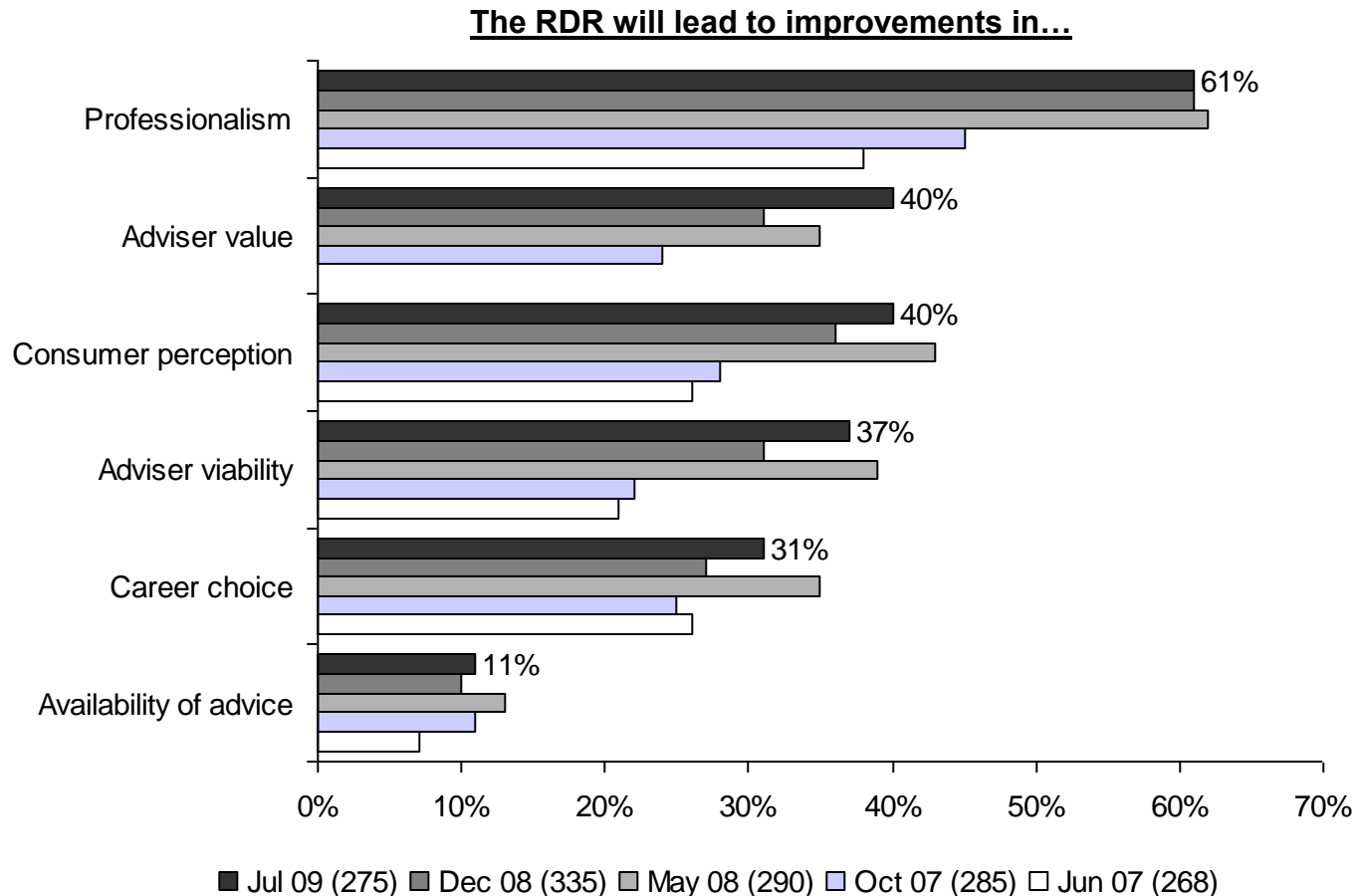
- AGE: 22% aged 55 or older
- REGULATION: 68% Directly Regulated
- ANNUAL INCOME: 10% up to £75,000
- NUMBER OF RI: 16% have 6-9 RIs
- ADVISER ROLE: 11% are Wealth Managers
- BUSINESS TYPE: 60% Ltd Co and 20% sole traders

All unlikely to stay independent after 2102 (24%):

- AGE: 54% aged 55 or older
- REGULATION: 46% Directly Regulated
- ANNUAL INCOME: 27% up to £75,000
- NUMBER OF RI: 4% have 6-9 RIs
- ADVISER ROLE: 4% are Wealth Managers
- BUSINESS TYPE: 36% Ltd Co and 45% sole traders

Improvements arising from the RDR

Whilst there is general acceptance that the RDR will increase professionalism, in other areas the majority are not convinced about the potential improvements



Base: See Legend

Based on what you know of the RDR please state the extent to which you Strongly agree / Agree with each of the following statements. The RDR will lead to an improvement in:

The Challenges for IFAs

- Cash flow strain
- How to articulate their proposition
- What should their fee structure look like
- Scale efficiency
- How to segment their customer base

Advice post 2012 – IFA

- The (20-30% smaller) IFA channel will focus on the High Net worth segment (those with investable assets of >£100k will not appeal to most IFAs) who have more complex needs & will pay for the advice
 - this might mean c.12,000 advisers with say 200 clients each
 - note: segmentation of this adviser community will remain extremely important, as now this will not be an homogenous group
- The fee structure will be more complex than today's simple AUM basis
- The need for efficiency will demand:
 - scale and
 - smarter operations (platforms, fund portfolios, para-planners...)
- The scope of service could be wider and include much closer collaboration with solicitors and accountants
- Perhaps a level of service higher which goes some way to bridging the gap to the service levels enjoyed by Private Clients

Advice post 2012 – Restricted Advice

- Tied & non-WOM advisers will focus on the mass affluent
 - this could grow to eventually be bigger than the IFA segment
 - (growing) orphan client bases provide a start point for several Providers
- Financial institutions may more readily have the capital to:
 - Fund “franchise” style operations and
 - Offer buyout potential for advisers
 - Invest in building new services – for example, workplace marketing strategies alongside NPSS
- These models may achieve greater cost efficiencies whilst still offering a wide investment choice
- Whilst IFA models will revolve around F2F, phone and email – large institutions may invest in internet based, remote advice models

New Models Will Emerge

- **IFA Market (HNW)**
- IFAs may embrace new areas of service (which they have historically under-weighted) ranging from cash management; self-assessment returns; healthcare....
- Specialists may become more apparent (Equity Release; SIPP, Expatriate....)
- IFAs may also work harder to cement relationships with customers (eg. The Wealth Club)
- More accountants will take shareholdings in IFAs
- **Mass Market (Mass Affluent)**
- Online models are emerging and new customer propositions are expected. The FSA has left the opportunity open for the industry to propose Simplified Advice solutions for the (neglected) mass market. It is clear that this will require creativity and efficiency
- Among long term savings institutions, Friendly Societies are building large customer bases via CTF products – they have opportunities to maximise their position
- The Life, Pensions & Investment industry can also learn from the Comparison sites within the general insurance market which have re-invented the distribution economics for Motor & Household insurance. The personal protection should embrace some of these strategies

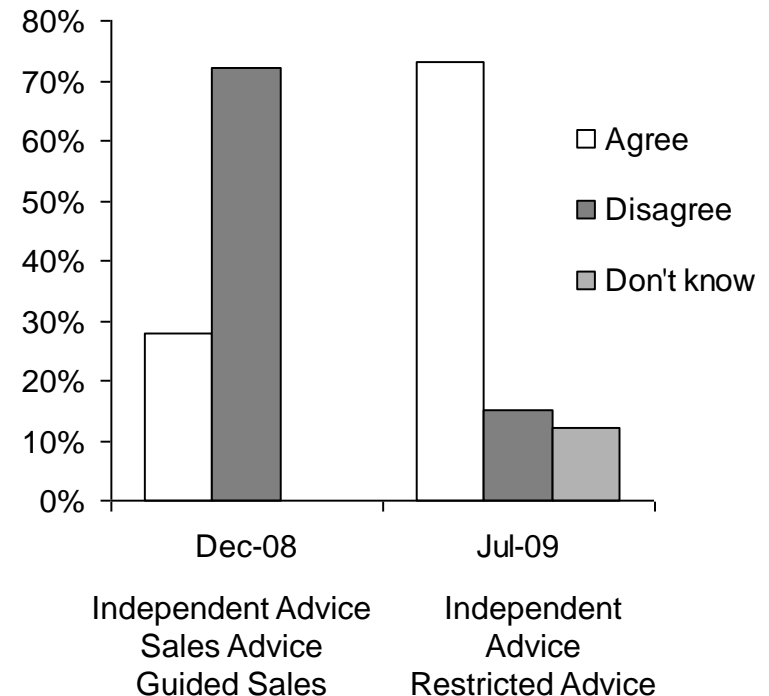
Appendices

'Independent advice' and 'Restricted Advice'

Response to using the term 'Restricted Advice', for that which is not based on whole of market, is far more positive than the previous proposal; almost 3 in 4 respondents agree with the new proposal

- A large majority agree with the proposal to refer to non independent advice as 'restricted'
- The level of agreement varies by segment with Enthusiastic Advocates being most likely to agree (82%) and Steadfast Rejecters least likely (64%)
- These results suggest the recent proposal is viewed as an improvement on the previous proposal, as in Dec-08 3 in 4 disagreed with this
- Among those that disagree with the name Restricted Advice, many suggest that it could be called Limited Advice

Agree with the proposed advice roles



Base: 275 (Jul 2009) Do you agree / disagree with the proposal that advice other than that based on whole of market should be called 'Restricted Advice'?

Base: 335 (Dec 2008) Do you agree with the proposal to have three advice roles comprising independent advice, sales advice and guided sales

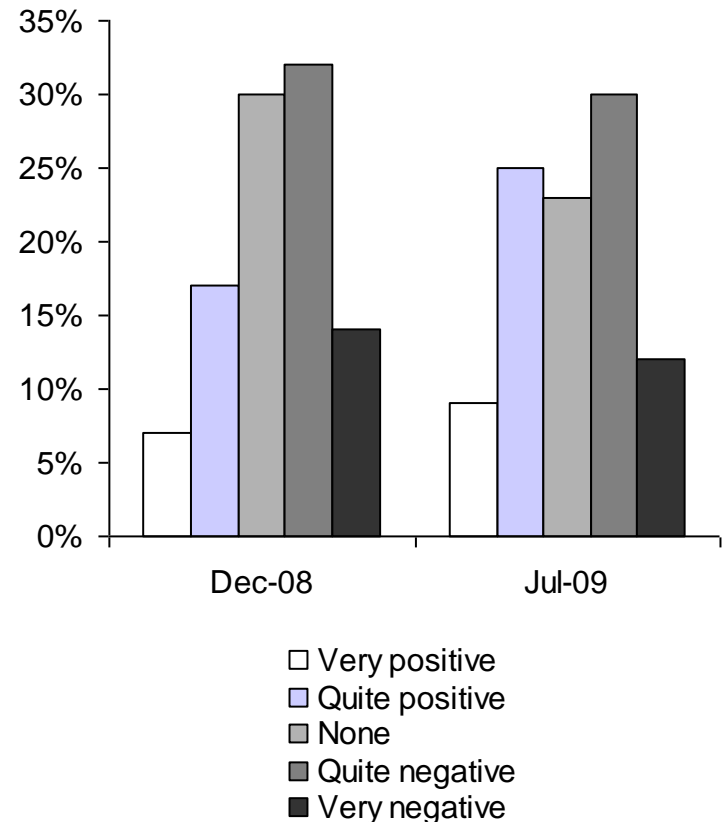
Adviser Charge model – overall impact

Although concerns remain that the Adviser Charge will have a negative impact on IFAs' businesses, the proportion believing it will benefit them has increased since the last research

- Whilst 35% of advisers believe the implementation of the Adviser Charge will have a positive impact on their business, 43% view it negatively
- Those who are positive towards the Adviser Charge are much more likely to be Enthusiastic Advocates, with 60% of this group being 'very or quite positive'
- A similar percentage of Reluctant Accepters and Steadfast Rejecters answer 'very or quite negative'

"I have explained the FSA proposals to my clients and with a majority of probably 95% their first thought is that they will not pay for advice, they will seek advice from a source that will not charge them a fee."

Adviser charge impact



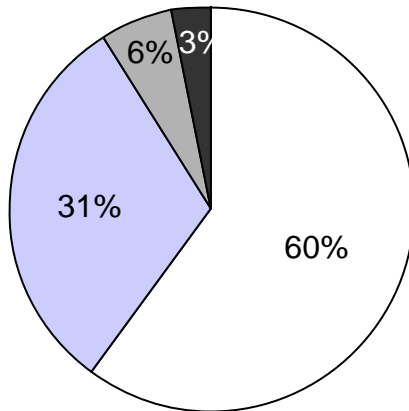
Base: 335 (Dec 2008); 275 (Jul 2009)

Dec 2008: What would be the overall impact on your business of operating the Adviser Charge model described above?

Jul 2009: What will be the overall impact on your business of operating the Adviser Charge model?

New definition of Whole of Market

3 in 5 respondents already consider the full range of retail investment products; among those that do not, the majority intend to meet the broader definition of whole of market by the end of 2012 at the latest

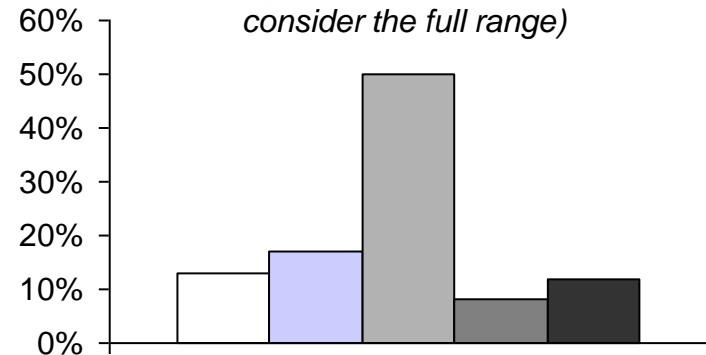


- I already consider the full range of retail investment products (incl. non packaged)
- I mostly use packaged investment products but also consider some, but not all, other retail investment products
- I make use of packaged investment products only
- Don't know

Base: 275 (July 2009) Which of the following best represents your current approach to creating investment solutions for your clients?

Base: 101 (July 2009 – Do not consider the full range of retail investment products) Which of the following best represents your view about meeting the broader definition of whole of market required to be an independent adviser after 2012?

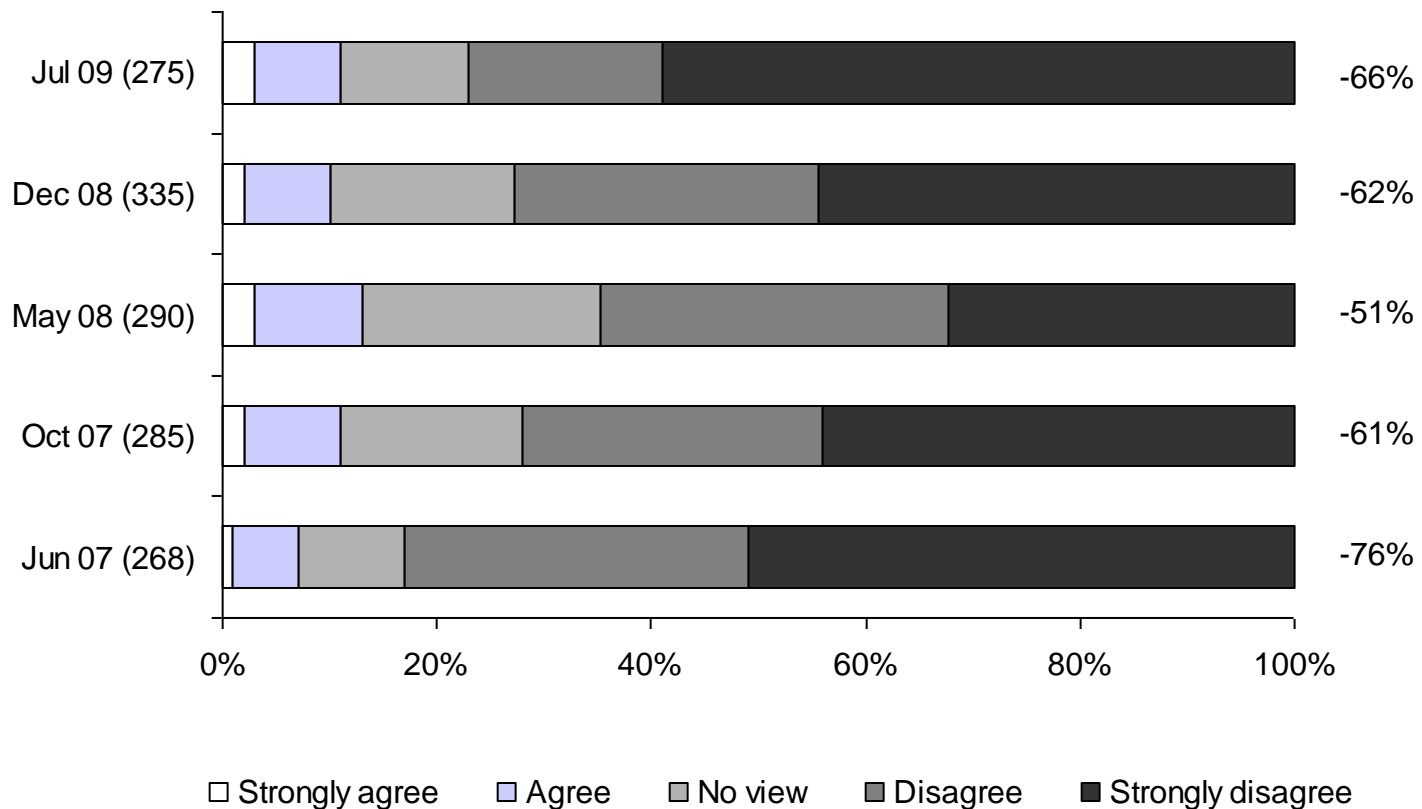
Plans for meeting the broader definition of whole of market
(among those that do not already consider the full range)



- I will adopt the new definition immediately
- I will adopt the new definition within 12 months
- I will adopt the new definition by the end of 2012
- I do not intend to meet the new definition of whole of market
- Don't know

Improvements – availability of advice

Advisers continue to remain overtly pessimistic towards the view that the RDR will lead to an improvement in the availability of financial advice to those currently not well provided for by the sector



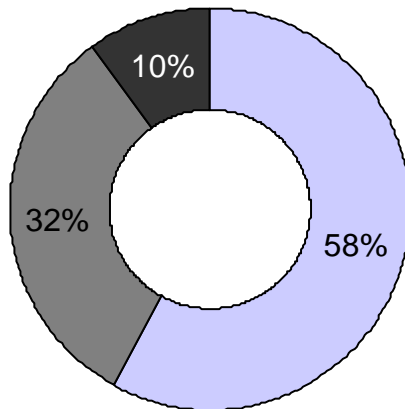
Base: See Chart Titles

Based on what you know of the RDR please state the extent to which you agree / disagree with each of the following statements. The RDR will lead to an improvement in the availability of financial advice to those not currently well provided for by the sector? Score calculated on All Agrees less All Disagrees.

Qualification – required level 4

Although there is a relatively high level of agreement that Level 4 should be the minimum qualification requirement, 1 in 3 disagree with this; reasons for disagreement vary but the need to take account of experience is a consistent theme

Level 4 to be the minimum qualification after 2012



□ Agree ■ Disagree ■ Don't know

Reasons for disagreement

- “Suddenly experience in the industry does not count. It is now all about exams.”
- “I think it is appropriate for whole of market independent advisers but not for the other categories.”
- “Too much irrelevant knowledge required.”
- “No other industry send their members back to school to start studying again, not even doctors...”
- “Exam passes don't always prove that you are a better adviser. Also the timescale should be extended.”
- “Who is going to pay for all this 100 hours of study per exam in a deep recession how are we ever going to make a living.”

Base: 275 (Jul 2009) All advisers offering Independent, Restricted or Simplified Advice will be required to hold a Level 4 qualification after 2012. Do you agree / disagree that Level 4 should be the minimum qualification level for advisers after 2012?
Base: 89 (Jul 2009 - All that disagree with the proposal) Why do you disagree that Level 4 should be the minimum qualification for advisers after 2012?