2012 was a year of restructure and preparation, with the new regulatory regime of the FCA due to take over in April and the launch of the RDR on 1st January 2013. Financial advisory businesses have generally had to re-engineer their business models, advice process and engagement with clients dramatically over the last 12 months. Many would agree that the RDR has presented the biggest impact on advice businesses for many years, the outcome being that firms are now required to explicitly disclose and separately charge clients for their services, in addition to adherence to a strict professional standard, including a code of ethics. This all has had an effect on current adviser numbers with various estimates in the press regarding attrition rates of the adviser community.

Additionally, qualification requirements have changed for all advisers to hold at least a minimum of QCA level 4, together with at least 35 hours of continuous CPD training each year. This has led to pressure within larger firms to ensure all appropriate advisers are qualified. A true picture of the resulting numbers is unlikely to emerge for several months yet. Advisers have 60 days from 31st December 2012 to provide a statement of professional standing. Estimates suggest somewhere between 15-20% of advisers have missed the deadline.

The number of advisers exiting was obviously accelerated in July 2012 when Honister Capital entered administration after it failed to secure professional indemnity insurance and 900 advisers were forced out of work with immediate effect, unable to provide clients with any authorised advice. The FSA has approved 606 applications for “approved persons” status from ex-Honister advisers, is currently considering 13 and 7 advisers have withdrawn their applications, leaving 274 of the 900 advisers unaccounted for. Tenet has taken on 180 former Honister advisers whilst Sesame have 124; Openwork have 60 and True Potential 48; Intrinsic and Simply Biz accounts for 40 apiece: Sense have 26 and Paradigm 21 whilst Positive Solutions has taken on “less than 20”; Financial Ltd accounts for 15-20 advisers, In Partnership has also taken “under 20” and Lighthouse has taken on 3. Philip Martin, Proposition and Marketing Director at Openwork, said: “While we have now taken on 60 former Honister advisers - largely through our IFA proposition, ‘2plan Wealth Management’ - we have rejected an additional 30.”

The regulator has given advisory firms from 7th to 29th of January 2013 to provide data on the professional standards of individual advisers. Furthermore, there is also a 30-month rule for new entrants to the industry. Individuals who moved to an advisory role between 1st July 2009 and 1st January 2011 have a fixed deadline of 30th June 2013. Individuals who moved to an advisory role after 1st January 2011 have a rolling 30-month deadline.

Keith Richards, Group Distribution and Development Director at Tenet, has confirmed that in his business around 10% of investment advisers were de-authorised at the end of 2012. In
addition, he believes that another 15-20% of network members may also have stopped providing investment advice, either through choice or not achieving the required qualifications. I am in agreement with Keith that, at the moment, it is very difficult to confirm accurately how many advisers have been lost across the market as a result of RDR, as advisers have been exiting during the past couple of years. It is simply too early to make any meaningful assessment about the number of advisers who have gone and the consumer reaction to the impact of this on adviser businesses.

A clearer picture will emerge in the coming months and it is possible RDR will result in a further loss of qualified advisers over that time. Across the market, other businesses are confirming removal of advisory status whilst individuals attain or try to retrieve their statement of professional standing. It would appear that a mass adviser exodus has yet to happen.

Moving into 2013, it will be interesting to see the effect of adviser numbers on the distribution of advice, particularly the middle mass-market where fee payment could be an issue or consumers’ buying habits determine that they will dip in and out of advice demands. The last men standing have yet to be counted.

Peter Smith, Head of Distribution Engagement