TISAtalks…RDR

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THEMATIC REVIEW PROVIDES CLARITY FOR DISTRIBUTORS IN POST-FCA WORLD

In a move designed to help advisory businesses continue their remodelling following the RDR deadline, the FSA has begun a thematic review on distributor status and adviser charging by implementing an initial survey. The questions posed by the regulator give clear shape and definition to the future requirements and indeed the key strategic points that the FCA will be looking for when it comes into existence post-April 2013.

Advisers will primarily have to demonstrate what the firm's actual target market is, provide evidence to support the selection of their key demographic and confirm whether post-RDR clients are significantly different to the client types serviced prior to RDR. Obviously any change of target market will need to be explained. The point of interest here is whether RDR has led to a focus on high net worth clients at the expense of those mass-market clients.

In order to ensure compliance under the new RDR rules, we're all aware of the need to demonstrate ongoing service and justify fees or adviser charging. Distributor firms are now required to describe their scope of service provided under eight options. These cover independent advice which is unbiased and unrestricted on a full range of retail investment products, or independent in a narrower relevant market, as well as restricted advice with limited products and restricted advice products of one provider or with products of a limited number of providers. In addition to these, advisers may offer basic advice, where it is specific delivery of advice on stakeholder products, and non-advice services including execution-only sales. There would need to be supplementary details of the firms' relevant market definition to ensure the foregoing status declaration is compatible with this.

For those firms who trade as independent, they will have to demonstrate what percentage of business comes through the independent service. This will have to be separated into what type of products are advised on and what percentage of business this accounts for, including detailed distribution via model portfolios, multi-manager funds, DIFs and discretionary services. Whilst the majority of firms will still operate Best Advice panels, these and products selected by an individual client need to be identified. This includes any outsource arrangements for support and administration, or joint ventures with investment management firms.

Conversely, restricted advisers must explain the nature of their restriction and how this differs from their scope pre-RDR. The FSA also wants clarity on how firms tell clients about their restricted status, and at what stage of the advice process they address this. Crucially, underlying this, the regulator calls for evidence of how advisers have been trained by the firm in order to ensure they provide the correct disclosure of the firm's status during the advice process.

The disclosure of a firm's restriction is currently a hot topic and, importantly, whether firms have assessed what type of client their restricted service is not suitable for. Firms should ensure that their advisers are aware of the circumstances where their restricted service is not suitable for a particular client and that they turn these clients away where appropriate.

One of the biggest challenges for the advisory market was the move to Adviser Charging and here the FSA's questions become a great deal more detailed, for example what payment methods are offered, and what proportion of clients use them. It has identified five different categories of payment as - Direct payment – cheque, card, cash; facilitated through a platform; facilitated through a product provider; don't know/unsure; other.

Whilst the last two options will attract attention, the FSA asks advisers whether they allow clients to pay the initial charge by instalments for advice on regular payments (and if so over what periods are allowed), and whether instalments are offered in any other instances. The FSA also enquires if firms have arrangements to recoup charges if policies are cancelled before all instalments have been made. A key point to note is the question around whether initial charges are solely contingent on products being taken up.

The final element relates to wrap and platform use where a firm has to outline how many platforms they use (back to the Best Advice panel section). If the firm is advising on products where the provider or platform offers charging facilitation, there will be the requirement to know if other payment methods are available to the client, and how client consent for adviser charging facilitation is recorded. One of the last questions is the most telling; 'Where adviser charging facilitation is used, do adviser charges payable by a client vary from where this is not used'.

It is clear from this that when advisory firms are responding to the regulator's survey, they now need a very detailed customer journey map which adequately justifies their processes and selection criteria, in addition to the oversight undertaken to ensure they compliantly control their business models going forward. A great deal of this was already set out in the "Journey To The FCA" document published late autumn 2012.

In order to support industry interpretation, TISA is currently working on elements of the wrap and platform requirements and has a "Suitability" seminar lined up for 23rd May 2013 to help members and the wider market understand the direction of travel from the regulator who will be giving their views at the event. Further details are available at the link below. http://www.tisa.uk.com/other_event.html?event_id=267

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