I CAN SEE CLEARLY NOW

It is clear from a number of recent TISA events which have covered suitability, transparency, incentives and adviser charging, that certain advisory businesses are still struggling to articulate their post-RDR propositions particularly in respect of the clarity of adviser charging structures.

In addition, the regulator has introduced the principle of 'Behavioural Economics', which advisory distribution firms must understand, including conduct risk. Each recommendation has to consider if profitability relies on exploiting or exacerbating product or recommendation bias. The question should be asked as to whether a recommendation to a client actively or inadvertently targets particular bias.

The FCA appears to have some concern following its recent thematic review that the RDR has not moved the market quickly enough. This has been highlighted in a series of recent meetings where the regulator has expressed concern that bias still exists under some charging structures, particularly those that are based on a percentage of assets invested. This appears to be a result of customers not fully understanding clarity of charges in adviser propositions, as evidenced by some early post-RDR research which unearthed a clear lack of understanding amongst clients particularly around advice charges and adviser charging. The removal of commission has not necessarily taken away the dealing bias particularly where remuneration is generated only if people will purchase a product. This element has also been addressed in a recent TISA briefing, conducted together with the FCA, on the financial incentives working party which is considering adviser remuneration.

The thematic review looked at the first six months of the RDR and the FCA has found clear evidence of confusion on adviser charging structures, particularly those which are percentage based. It would appear that some advisory distributors are not thinking their adviser charge mechanism through properly. You will recall that the RDR removed commission but created provider facilitated adviser charging and does not require advisers to charge fixed fees for their services. Confusion is increased in that providers facilitation of adviser charging varies by provider and by product, inevitably causing some confusion and certainly a lack of transparency to the end consumer of the real amount charged for the advice service being given.

Current research clearly indicates the overwhelming majority of retail customers will not pay a flat hourly charge as they do not normally see the value and fail to understand that someone can charge them money to advise them not to invest.

The regulator has no imminent plans to ban percentage charges or alter the current rules on adviser charging and adviser charge deductions. It is us in the industry who therefore need to ensure real clarity of communication to the end consumer, to satisfy the regulator in order to resolve this issue.

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