TISAtalks…Distribution Dilemmas

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HIGHER AND HIGHER

In previous blogs I have referred to the likely direction of travel from the regulator in respect of the disappearance of commission from the distribution chain and the likely focus on any form of support given by providers or fund groups which would be seen as commission in a different guise. The spotlight from the regulator still shines bright on the ubiquitous 'marketing packages' which have existed in the advisory market for a considerable time and had become very common practice.

These arrangements are not against the rules as they currently stand but they probably run very closely against the spirit of clarity of costs, charges and profits for consumers. To whose benefit is the value going? This week has seen the long-awaited publication by the FCA of further guidance in this area following the 'Dear CEO' letters sent to many providers and fund groups last October.

The concern here clearly from the regulator is that advisory firms and their suppliers are undermining the principles of the Retail Distribution Review (RDR) soliciting business production in return for what it terms inappropriate payments.

This latest guidance clearly indicates that following responses from those firms there is clear evidence that some payments to advisory firms appear to be closely linked to securing sales in return for panel position, without a clear and concise demonstration of a business benefit which does not also improve the quality of service or product provision to the customer. It has been common practice within the market for some time to have financial arrangements in place where incentivised advisory firms promote a specific providers product or fund creating a risk that the advice would be influenced more by commercial decisions than the interests of customers.

Certain joint ventures, where a new investment proposition is jointly designed by both providers and the advisory firm, in the regulator's eyes create conflicts of interest and could potentially lead to biased advice. It appears that in one example an advisory firm was paid substantial upfront fees with its profits increasing the more business was channelled into the joint venture. The regulator is evidently concerned where arrangements are in place which could influence advisers' recommendations particularly now RDR has removed commission.

It is clear that all firms should immediately review their existing arrangements to ensure all provider and fund group payments for any support, which includes seminars, conferences, mailing exercises and the like, demonstrate their purpose and who the value goes to particularly with the end consumer in mind.

We can expect further concentration of effort and action from the regulator here for those who do not comply. This dovetails perfectly alongside the work TISA has been conducting with the FCA on its incentives payment projects which looks predominantly at how you pay and reward the sales adviser directly facing the customer. Nevertheless, it has been obvious for some time that the concept of marketing packages and payments which promote products and funds in front of advisory groups would come under the same scrutiny.

The FCA's guidance paper – GC13/5 'Supervising retail investment advice: inducements and conflicts of interest' – is available on their website, which can be viewed via the following link - http://www.fca.org.uk/your-fca/documents/guidance-consultations/gc13-05

If you haven't already thoroughly checked your agreements with providers, particularly as we are now at the usual time to negotiate budgets and marketing packages for 2014, you have been warned.
Peter Smith, Head of Distribution Engagement