

ARE YOU READY?

Looking at the recent thematic review on adviser charging, the good news from the regulator is that firms have made steady progress along the road.

Firms have generally acted to implement the new requirements and were open to regulator feedback. The FCA was pleased that many firms' propositions were in line with the new rules. Even better, some firms had also tried to make their disclosure material clear and engaging for their customers.

The FCA identified two main areas where action is required. Firstly, while there was evidence of good practice, some firms were not providing clients with some or all charges in cash terms. The regulator wants customers to understand in pounds and pence terms exactly what services they are getting for their hard earned cash. Secondly, some firms did not outline clearly what on-going services they would provide. These findings were common, suggesting other firms may also not be meeting the standards required.

Interestingly, it was also identified that while most firms were providing their generic charges in good time before making a personal recommendation, some were not. There was also concern that some firms, while describing themselves as independent, were not offering a truly independent service. Some firms providing restricted advice were not adequately describing the nature of the firm's restriction.

Consumer research conducted in tandem with this qualitative study demonstrates the importance of firms providing clear information so clients understand the cost of advice and the service they can expect.

In respect of how advisers appear and what is on their 'shopfront', firms must make it clearer to their clients whether they are restricted, and if so, how they are restricted to avoid prolonging the assumption that they are independent. The survey showed several times that a firm's status or standing was not clear to their customers.

The FCA has provided feedback to those firms in the review, but all firms should ensure they are following FCA rules in these areas. The regulator will conduct further assessments with a wider sample of firms from this month to test whether firms have acted on feedback. Last week's 'Winning Advisers' syndicate sessions hosted by TISA served as a reminder of the rules and feedback there indicated that a number of firms have to make improvements to meet the current requirements on customer clarity and understanding.

If firms are not complying with the RDR rules, the FCA may take supervisory or, where appropriate, enforcement action. A factsheet is available which covers the report on the FCA website via the following link - <http://www.fca.org.uk/news/tr13-05-how-firms-are-implementing-the-rdr>.



Since the launch of RDR, a firm must disclose its charging structure in writing and, where possible, in cash terms. Consumer research suggests that providing examples of adviser charges in pounds and pence significantly helps consumer understanding.

FCA research indicates that the use of pound examples at different price points helps to ensure consumers can compare the cost of advice, so it is important that firms get this right. Some firms the FCA approached were providing very clear examples of the cost of advice in cash terms including cash examples when minimum fee levels apply showing how and when the minimum fee might apply; cash examples where adviser charges were tiered by investment level; and indicative cash costs for recommendations on different product types.

Where firms were not providing cash terms the regulator identified two main issues - some firms provided no cash terms at all, or the adviser charge for the initial advice was in cash terms, but the on-going adviser charge was not.

Firms advising retail clients on retail investment products need to clearly state their adviser charges. Will you be ready when the regulator comes or talks to your customers?

Peter Smith, Head of Distribution Engagement