It seems that an inevitable and welcome outcome of the RDR is that ‘direct to consumer’ (D2C) propositions are emerging and improving rapidly. The development of D2C being a positive for financial advisers may seem counterintuitive, however the theory that financial advisers will fall victim to a post-RDR stampede of consumers going it alone is misunderstood - there will certainly be better facilities available should consumers decide to invest without seeking advice and a number of services are becoming increasingly compelling.

JP Morgan Asset Management have some interesting survey data indicating that among households with more than £50,000 in earnings only 19% preferred to be fully self-directed in their investments. In contrast, 81% of consumers want some form of financial advice whether it is task-based, guided or ongoing.

Naturally, advice is sought in typically more complex financial matters such as inheritance, pension planning or tax advice. Interestingly, auto-enrolment is also creating a nascent breed of investors. To date, around 2,300 employers have automatically enrolled 1.6 million workers into pension schemes. It is predicted that by 2018 over 1 million employers are expected to have automatically enrolled up to 11 million workers. Surely this will create an entire population of people forced to think more broadly about investment propositions and the need to become more engaged with the industry in not only their pensions but the whole financial landscape.

Ian McKenna has made some interesting comments around advisers he has met who still believe their clients do not use technology and have no appetite for receiving financial information online. However, he will tell you a significant and growing minority recognise that financial advice cannot be immune from the transformation that technology is bringing to all industries.

Compeer’s financial DIY report identifies that over one in three UK consumers are using the internet to research financial products in preference to advisers. The report also identified a 62% increase in execution-only as the preferred channel for mass affluent consumers.

The challenge presented here is invariably compliance and the interpretation of the rules. Firms wishing to build such a proposition would be well advised to read ‘Simplified Advice Finalised Guidance March 2012’ and ‘PERG 8.24’ on the FCA website, and ‘Understanding the definition of advice under MiFID’ and ‘MiFID complex and non complex financial instruments’ on the ESMA website. The advice gap is now being defined as the gulf between expensive post-RDR wealth management services, restricted inevitably to an elite band of consumers versus the everyday simple financial advice millions of consumers can realistically afford. The TISA D2C Special Interest Group is working on an interpretation of the EMEA and FCA documents, together with the FCA, in order to issue a guidance framework for members. Hopefully this work will help address the apparent burgeoning advice gap and find some bridges to cross it.

Encouragingly, a survey by Karen Barrett and her team at www.unbiased.co.uk found that consumers still seek financial advice, despite suggestions to the contrary. In their current survey almost one in five (19%) have sought advice from an independent financial adviser in the past five years rising unsurprisingly to almost a quarter (24%) of the nations over 60’s.

Progressive advisory distribution firms will be joining the dots on their distribution models and with a little time spent reading the formative ESMA and FCA documents should be able to build their client solutions of tomorrow, to serve both face to face and digital interactions with their customers on a format that still allows them to generate profits. There is an opportunity here for the advice profession as workers build their wealth over time and encounter more complex financial decision-making.

*Peter Smith, Head of Distribution Engagement*