TISAtalks…Distribution Dilemmas 10th December 2013

DECISIONS

At the weekend, whilst undertaking some DIY, I found myself drawing parallels with this particular task and financial advice – rather than call in a professional, I was participating in my very own version of execution-only with limited advice!

The FCA has carried out its post-implementation review of the RDR; pre-RDR, a potential boom in non-advised sales was anticipated but has, so far, not materialised. This is primarily due to distributors needing more clarity on where the 'line in the sand' is between advice and non-advised sales.

There are now fewer financial advisers operating in the market than before RDR and most have moved away from transactional sales, even those in simple protection, small investments and annuities. Banks have been repositioning themselves at the same time and consequently their high street sales forces have been withdrawn from the market whilst they consider the most economic way to redeploy the sales distribution in the current regulatory environment.

In my view the solution to direct to consumer, execution-only and simplified advice lies in the use of digital technology and this is where the parallel with my DIY analogy comes in.

TISA is running the D2C Special Interest project with valuable contributions coming from the diverse members involved and a very helpful contribution from the FCA team. It is very apparent that those businesses which started with execution-only businesses are finding the expansion to their business model somewhat easier than those starting from a base of full advice services.

With execution-only, clients are already making their own investment decisions and transacting via whatever mechanism that advisory business offers, be it paper or digital. Evidentially, the need for advice is typically triggered when a consumer either reaches retirement or is unsure what to do for more complicated investment matters, such as estate/inheritance planning. These consumers are normally quite happy to accumulate as they go but as their needs become more complicated, particularly with considerations such as drawdown and lifetime allowances for example, invariably they feel that they need some advice.

One issue the TISA D2C Special Interest group has been wrestling with is drawing a clear line between advice and non-advice. It has to be made clear when someone is making their own decision on the execution-only side, but if they then want to move to advice the process is very different. The client needs to fully understand this and realise the different process will include a fee agreement, fact find, attitude to risk questionnaire and so on.

For the advisory business, if they wish to run a dual model there should be a clear separation of the engagement process for both and a client friendly explanation which ensures the customer understands that these are different services. Certain firms are looking at transition from execution-only to advice as a new client feeder mechanism. There is a strong possibility that an execution-only customer will eventually become full-blown, or intermittent, advice client as they progress through the accumulation phase building their pension pots and investment funds. Business models emerging now typically have transactional services for people who may want a one-off piece of advice where there is a menu of fees for that purpose. There is growing belief amongst those advisory businesses at the forefront that customers will dip in and out of advice as and when they need it.

It is encouraging to see the amount of interest from distribution advisers in constructing business models of both types in the post-RDR world. The key point is to deliver a service the client wants, but avoid making the assumption that a client is either advised or non-advised at all times. Aiming to deliver the services a client wants and needs, with a clear explanation of those services, fees and what the difference is between them, is a good starting point.

Peter Smith, Head of Distribution Engagement